



## SUPPLEMENT: CORPORATIONS (1120)



# **Drake Software**

## **User's Manual**

**Tax Year 2014**

**Supplement: Corporations  
(1120)**

*Support.DrakeSoftware.com*  
(828) 524-8020

## **Copyright**

The *2014 Drake Software Manual Supplement: Corporations*, Drake Tax Software, and any other related materials are copyrighted material. All rights are reserved by Drake Enterprises, LTD, including all ownership rights. This document, associated software, and related material are the property of Drake Enterprises, LTD.

Drake Enterprises, LTD, hereby authorizes you to download, display, print, and reproduce the material in this document in an unaltered form only for your personal, non-commercial use or for non-commercial use within your organization. Copyright, trademark, and other proprietary notices may not be removed.

© 2014 Drake Enterprises, LTD. All rights reserved.

While every attempt has been made to produce an accurate and complete manual, there is no warranty, expressed or implied, to that effect. Drake Enterprises, LTD, assumes no liability for damages or claims resulting from the use of the information contained herein.

## **Trademarks**

The Drake Software Logo and Drake Tax are registered trademarks of Drake Enterprises, LTD.

Microsoft® and Windows® are either registered trademarks or trademarks of Microsoft Corporation in the United States and other countries.

Other product names mentioned in this manual may be trademarks or registered trademarks of their respective companies.

# Table of Contents

<b>What's New in Drake for Corporations .....</b>	<b>1</b>
Estimated Taxes Screen .....	1
Unlimited Forms 2848 .....	1
New ACA Fields on Form 8941 .....	2
Reconciliation Totals Displayed .....	2
Force-Printing Final End-of-Year Totals .....	2
Force-Printing Schedule M-3 .....	3
Missing ID Number .....	3
Form 3115 Change .....	3
Safe Harbor Elections .....	4
Form 8878-A .....	4
Practice Management Tools .....	4
<b>Before You Start.....</b>	<b>4</b>
Updating a Prior-Year Return in Drake .....	4
Converting from Another Return Type .....	5
Filing Form 1120-C or 1120-H .....	5
<b>Header Information .....</b>	<b>5</b>
Name and Address .....	5
Tax Year .....	6
Boxes A through E .....	6
<b>Income and Deductions .....</b>	<b>6</b>
Gross Receipts .....	7
Cost of Goods Sold (Form 1125-A) .....	7
Dividends (Schedule C) .....	8
Interest .....	8
Rents and Royalties .....	8
Capital Gains .....	8
Ordinary Gains and Losses .....	9
Other Income (Loss) .....	9
Compensation of Officers (Form 1125-E) .....	9
Salaries and Wages .....	10
Repairs and Maintenance .....	10
Bad Debts .....	11
Rents .....	11
Taxes and Licenses .....	11
Interest .....	11
Charitable Contributions .....	11
Depreciation .....	12
Depletion .....	12
Advertising .....	12
Pension and Profit-Sharing .....	13
Domestic Production Activities .....	13
Other Deductions .....	13

NOL Carrybacks and Carryforwards .....	13
<b>Tax, Refundable Credits, and Payments .....</b>	<b>13</b>
Total Tax .....	14
Estimated Taxes and Applied Refunds .....	14
<b>Direct Deposit of Refunds.....</b>	<b>14</b>
<b>Electronic Funds Withdrawal (Direct Debit) .....</b>	<b>15</b>
Program Defaults and Overrides .....	15
Required Information .....	15
Withdrawal from Multiple Accounts .....	16
<b>Filing an Extension .....</b>	<b>16</b>
<b>Signing the Return.....</b>	<b>17</b>
<b>Amending a Return .....</b>	<b>17</b>
<b>Schedule K .....</b>	<b>18</b>
Schedule K, Line 3 .....	18
Schedule K, Line 4 .....	19
Schedule K, Line 5 .....	19
Schedule K, Line 7 .....	20
Schedule K, Line 13 .....	20
<b>Schedule K-1 .....</b>	<b>20</b>
<b>State-Specific Information .....</b>	<b>21</b>
Contact Information .....	21
Other States .....	21
<b>Other Information and Overrides .....</b>	<b>23</b>
<b>Schedule L (Balance Sheet per Books).....</b>	<b>23</b>
Flow of Information .....	23
The SCH2 Screen .....	23
Autobalance .....	25
<b>Schedules M-1 and M-3 (Reconciliation of Income per Books). ....</b>	<b>25</b>
Schedule M-1 .....	25
Schedule M-3 .....	26
<b>Schedule M-2 (Unappropriated Retained Earnings).....</b>	<b>27</b>
M-2 Troubleshooting .....	27
<b>Schedule O (Controlled Group Information).....</b>	<b>28</b>
AMT Adjustments and Other Items .....	28
Types of Controlled Groups .....	28
Line 5, Apportionment Plan Status .....	29
<b>Credits and Adjustments .....</b>	<b>29</b>
<b>Adjusting Charitable Contributions/NOL.....</b>	<b>29</b>
<b>Elections.....</b>	<b>30</b>
Making an Election in Drake .....	30

Election Statements .....	31
Safe Harbor Elections .....	32
<b>Making Changes on the Fly .....</b>	<b>32</b>
Suppressing/Forcing Documents .....	32
Calculation and Other Options .....	33
Overriding Other Setup Options .....	33
<b>Electronic Filing .....</b>	<b>34</b>
Common Error Codes .....	34
<b>Special Types of Returns .....</b>	<b>34</b>
Electing a 52-53-Week Year (Initial Return) .....	34
Inactive Returns .....	35
<b>Binary Attachments .....</b>	<b>36</b>
The PDF Attachment Process .....	36
<b>Form 3115, Application for Change in Accounting Method .....</b>	<b>38</b>
Accessing Screens for Changing Accounting Method .....	38
Form 3115 Screens .....	39
<b>Importing Trial Balance Information .....</b>	<b>47</b>
Preparing to Use Trial Balance Import .....	47
Preparing Financial Data for Import .....	48
Entering Financial Data .....	50
Saving a File .....	52
Importing Data into a Return .....	52
Special Conditions .....	53
Appendix A: Trial Balance Import .....	A-1
<b>Index .....</b>	<b>vii</b>

This page intentionally left blank.

# **Corporations (1120)**

The basics of data entry for a corporation (1120, 1120-C, 1120-H) return are the same as for a 1040 return. Field- and screen-level help, shortcut keys, and navigation throughout data entry all function as they do in the 1040 program. See the *Drake Software User's Manual: Tax Year 2014* for the basics of using the program.

## **What's New in Drake for Corporations**

Drake programs its tax software according to the latest IRS rules and regulations. The 2014 program reflects all changes to credits and deductions, including discontinuations. For details on the new regulations for the 2014 tax year, see the IRS instructions for Form 1120.

## **Estimated Taxes Screen**

The **ES** screen has been redesigned this year to provide a way to e-file state estimated tax vouchers and payments, which is required in some states. The functionality of the federal section of the **ES** screen is unchanged.

The other change is for estimated taxes from multiple states or cities. Rather than filling out several **State/City** sections on the **ES** screen, now you press PAGE DOWN and go to a new **ES** screen.

For details on using the enhanced **ES** screen for filing federal estimated taxes, and on e-filing and paying state estimated taxes, see "Estimated Taxes," in Chapter 5 of the *Drake Software User's Manual: Tax Year 2014*.

## **Unlimited Forms 2848**

You can now enter an unlimited number of representatives on the redesigned **2848** screen when filling out Form 2848, Power of Attorney. When you need another **2848** screen to enter information on another representative, press PAGE DOWN.

## New ACA Fields on Form 8941

Fields were added to the bottom of the **8941** screen to allow you to complete the two new lines at the top of Form 8941, Credit for Small Employer Health Insurance Premiums. These new lines, added by the IRS, determines if employer has provided health care coverage for its employees as mandated by the Affordable Care Act, and determines if the business is eligible to use Form 8941.

## Reconciliation Totals Displayed

Schedule L and Schedule M-2 reconciliation totals are displayed on screens **L**, **L2**, and **M2** to facilitate reconciliation of the balance sheet (item #1 in Figure 1).

**Schedule L - Balance Sheet - Beginning of Year**

		Assets	(a)	(b)	Total
1120C	1120				
1	1	Cash.....	1111	54321	54321
2a	2a	Trade notes & accounts recv.....	2222		1111
2b	2b	Less allowance for bad debts.....			2222
3	3	Inventories.....			654321
N/A	4	U.S. government securities.....			1212
5	5	Tax-exempt securities.....			323
4	6	Other current assets.....			SCH2 Screen
6	7	Loans to shareholders.....			789
7	8	Mortgage & real estate loans.....			543

**Schedule L - Balance Sheet - End of Year**

		Assets	(c)	(d)	Total
1120C	1120				
1	1	Cash.....	4567	12345	12345
2a	2a	Trade notes & accounts recv.....	1234		4567
2b	2b	Less allowance for bad debts.....			(1234)
3	3	Inventories.....			4040
N/A	4	U.S. government securities.....			
5	5	Tax-exempt securities.....			
4	6	Other current assets.....			
6	7	Loans to shareholders.....			
7	8	Mortgage & real estate loans.....			

Figure 1: Beginning- and End-of-Year totals displayed on screens **L** and **L2** (#1); force printing end-of-year totals (#2)

Note that the totals from the balance sheet's subsidiary schedule (**SCH2 screen**) also appear in the **BOY Totals** and **EOY Totals** columns of the **L** screen.

If you make any changes to the data, recalculate the return (press **CTRL+C**) for those changes to be displayed on the screen.

### NOTE

The end-of-year totals also appear on screen **M2 (Retained Earnings)**. From either screen **L**, **L2**, or **M2**, press **PAGE UP** and **PAGE DOWN** to toggle among screens **L**, **L2**, and **M2** to make reconciliation easier.

## Force-Printing Final End-of-Year Totals

Normally, if you mark **Final** on screen **1**, indicating that this as a final-year return, Drake “zeros out” the **EOY Totals** column of Schedule L. Now, mark the **Force-print**

**final end of year** check box on screen L (see item #2 in Figure 1) to display those totals in the **EOY Totals** column.

## Force-Printing Schedule M-3

Page 1 of Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million, and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million. If the corporation's assets do not equal or exceed \$10 million but you want to voluntarily file Schedule M-3, or if the corporation's assets do not equal or exceed \$50 million and you wish to file the complete M-3, go to screen **M3** and make a selection from the **Voluntarily file M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

See "Schedules M-1 and M-3 (Reconciliation of Income per Books)" on page 25 for more details on these schedules.

## Missing ID Number

In the past, if the corporation received a Schedule K-1 from a partnership and the partnership did not have an ID number—for instance, if the partnership was foreign and did not have an EIN—then you typed FOREIGNUS into the **Partnership EIN** field of the **K1P** screen. If the partnership had applied for an SSN or EIN but had not yet received an ID number, then you would have typed APPLD FOR in the **Partnership EIN** field.

Now, to help avoid a data-entry error that might lead to an IRS reject, Drake will auto-fill the **Partnership EIN** field. Type F into the **Partnership EIN** field and FOREIGNUS is automatically entered, or type A and APPLD FOR appears.

Figure 2: Drake autofill the **Partnership EIN** field with "FOREIGNUS" or "APPLD FOR"

## Form 3115 Change

Form 3115, Application for Change in Accounting Method, is now eligible for e-file. See "Form 3115, Application for Change in Accounting Method" on page 38 for details of using the Drake screens to file this form.

See "Form 3115, Application for Change in Accounting Method" on page 38 for details.

## Safe Harbor Elections

A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

Two other elections are now available from the **Election** drop list on the **ELEC** screen:

- Sec. 1.263(a) - 1(f) de minimis safe harbor election
- Sec. 1.263(a) - 3(n) Election

See “Safe Harbor Elections” on page 32 for more.

## Form 8878-A

For electronic payments on extensions, the program now produces Form 8878-A, the IRS e-file Signature Authorization for Form 7004.

## Practice Management Tools

For details on additions and enhancements to Drake’s practice management tools—such as the email program, the letters and billing editor, importing client payment information, and the Scheduler—see the *Drake Software User’s Manual: Tax Year 2014*.

## Before You Start

Actions you might need to take before starting a 1120 return in Drake include:

- Updating a prior-year return (if you prepared the tax return last year)
- Changing a return from another type of return to an 1120, if the corporation has made such a change in the last year

## Updating a Prior-Year Return in Drake

A prior-year return can be updated in three ways:

- As a single return (updated one at a time) using **Last Year Data > Update Clients 2013 to 2014** (recommended)
- When you open a 2013 return for the first time in the 2014 program and are prompted to update it
- With all other returns in the program using **Last Year Data > Update Clients 2013 to 2014** (not recommended)

When you update an 1120 return that was marked “final” the previous year, the program informs you that the return was marked final before prompting you to proceed.

## Converting from Another Return Type

If the corporation is electing to become an 1120 corporation after existing as another type of entity (S corporation, partnership, etc.), it is necessary to indicate this in the program.

To change from another type of entity to an 1120 corporation in the program:

1. From the **Home** window, select **Tools > File Maintenance > Change File Type**.
2. Enter the EIN of the entity and click **Continue**.
3. Select the new return type.
4. Click **Continue** to save the change.
5. Click **OK**.

## Filing Form 1120-C or 1120-H

No preliminary steps are required for Forms 1120-C or 1120-H. Use the same screens you might for an 1120 return, but include one of the following screens in addition (accessible from the **Other Forms** tab of the **Data Entry Menu**):

- **20C** — For Form 1120-C, U.S. Income Tax Return for Cooperative Associations
- **H** — For Form 1120-H, U.S. Income Tax Return for Homeowners Associations

If one of these screens contains data, the program automatically produces the type of return indicated. For example, if a deduction is entered on screen **20C**, an 1120-C return will be produced.

### TIP

Is Form 1120-C or 1120-H being produced in error? Check the corresponding screen (**20C** or **H**) for data entered. To delete a screen, open the screen and press **CTRL+D**.

## Header Information

Screen 1 contains fields for the general information that is printed in the top section of page 1 of Form 1120 (or Form 1120-C or 1120-H, as applicable).

## Name and Address

Use screen 1 to enter the corporation's name and address for Form 1120. For state purposes only, if the corporation has an alternate address (such as a P.O. box), you can enter that address on screen 2, **State General Information**, in the **Address Line 2** field at the bottom of the screen.

### NOTE

The screen 2, **State General Information** link is located on the **States** tab of the **Data Entry Menu** and on screen 1. You can also type 2 into the selector field and press **ENTER**.

## Tax Year

The software uses the calendar year as the default tax period for all corporate returns; no date entries are required on screen **1** for a December 31 tax year end.

### Fiscal and Calendar Years

If the corporation uses a fiscal year (where the year begins in the current calendar year and ends in the next), specify the beginning and ending dates in the **If not calendar year** section in the lower-left corner of screen **1**.

### NOTE

The program adjusts calculations for depreciation and for gains and losses on sales of assets based on the entity's tax year.

For information on filing with a 52-53-week year, see "Electing a 52-53-Week Year (Initial Return)" on page 34.

### Short-Year Returns

An entity may have a short-year return if the entity is changing accounting periods with IRS approval (Form 3115), or if this is its first or last year in business and the tax year is not a full year.

To indicate a short-year return, use the fiscal year date fields on screen **1** to indicate the beginning and ending dates for the current year.

If filing a short-year return (other than an initial or final return), you have to provide an explanation. To do so, go to the **ELEC** screen and select an explanation from the **Other short year reason** drop list. Your explanation will be displayed at the top of the first page of the tax return. If you do not select an explanation, an EF Message will be generated with the return, and the return cannot be e-filed.

### NOTE

For more information on short-year explanations, see IRS Pub. 4163.

The program may not correctly calculate depreciation, gains, or losses for a short-year return. Depreciation for a short-year return can be entered on screen **4562** and/or screens **6**, **7**, **8**, and **9**.

## Boxes A through E

Use screen **1** to enter most information for boxes A through E (top of Form 1120). Note that boxes A-4 ("Schedule M-3 attached") and D ("Total assets") are completed automatically by the program based on data entered elsewhere.

### NOTE

Box 1a ("Consolidated return") is automatically marked if there are entries on screen **851** (Form 851, Affiliations Schedule). Box A-2 ("Personal holding company") is automatically marked if there are entries on screen **PH** (Schedule PH, U.S. Personal Holding Company (PHC) Tax).

## Income and Deductions

Only three screens are required in order to calculate taxable income for a return:

- **INC** — Includes all items of income reported on Form 1120, page 1, lines 1 through 10, that do not require a separate schedule (Schedule C) or additional

information (Income reported on Form 1065, Schedule K-1); also includes tax-exempt interest income reported on the Schedule K.

- **DED** — Includes all deduction items reported on Form 1120, page 1, lines 13 through 26, that do not require a separate schedule or form (Form 4562).
- **J** — Includes loss carrybacks, controlled group tax bracket amounts, tax payment information, and certain credits.

## Gross Receipts

Enter gross receipts (Form 1120, line 1a) and returns and allowances (Form 1120, line 1b) on lines 1a and 1b of the **INC** screen. Exclude any amounts that are to be reported on lines 4 through 10 of Form 1120.

## Cost of Goods Sold (Form 1125-A)

Enter the cost of goods sold (COGS) on screen **A**. Form 1125-A is not produced unless entries are made on screen **A**.

### NOTE

On screen **A**, items 9a through 9f are direct-entry fields and follow the format of IRS Form 1125-A. For more information on completing these fields, press F1 or consult the IRS instructions.

### Inventory

Inventory amounts entered on lines **1** and **7** of screen **A** automatically flow to Schedule L, line 3 (“Inventories”)

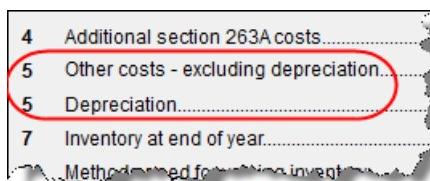
Lines **1**, **2**, and **7** of screen **A** are adjustment fields. Amounts entered in these fields adjust (add to or subtract from) any amount being carried from the **F** screen (Form 1040, Schedule F, Profit or Loss from Farming) to line 2 of Form 1120.

### NOTES

The fields on screen **L (Schedule L - Balance Sheet - Assets)** for line 3 “Inventories” are override fields. Anything entered in these fields overrides (replaces) the data entered for inventory on screen **A**.

### Line 5, Other Costs

Line 5, “Other costs,” on screen **A** is designated for any applicable costs not entered on lines 2 through 4 (purchases, cost of labor, and additional section 263A costs). In Drake, two data-entry fields are used to complete line 5: one for other costs excluding depreciation, and one for depreciation (Figure 3).



**Figure 3:** Screen **A** (Schedule A), line 5

In the “Depreciation” field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562 (Depreciation - Detail Items)** screen with **COGS** selected from the **For** drop list). Note that this field of screen **A** is an

override field; an entry here overrides calculations from the **4562** screen. Amounts entered in this field automatically adjust the total depreciation that is carried to page 1 of Form 1120. An entry in the “Other costs - excluding depreciation” field opens a CTRL+W worksheet. The depreciation amount is included on the statement for other costs and should not be included in the “Other costs - excluding depreciation” worksheet.

### Importing Trial Balance to Sch A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 47), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* in the fields in data entry. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly.

## Dividends (Schedule C)

Enter dividends and special deductions on screen **C** (Schedule C). The Dividends Received Deduction Worksheet (WK\_DRD) is generated from data entered in these fields. The result of the WK\_DRD is carried to Schedule C of the return. The total from Schedule C, line 19, column A, is carried to Form 1120, line 4 (“Dividends”), and the total from Schedule C, line 20, column C, is carried to Form 1120, line 29b (“Special deductions”).

### NOTE

If the corporation is filing a consolidated return, do not enter non-included dividends here or anywhere else in the program.

## Interest

Line 5 of Form 1120 is for interest income, which is entered on the **INC** screen. Note that the **Interest income** field is an adjustment field; an amount entered there is combined with the interest amount, if any, entered on screen **6252** (Form 6252, Installment Sale Income) and interest income entered on screen **K1P** (Schedule K-1, Form 1065).

Enter *tax-exempt* interest income on the **INC** screen. This amount flows, as applicable, to Schedule K, line 9, and to Schedule M-1, line 7. Override fields are available on screens **K** and **M1** if necessary to override the **INC** screen amount.

## Rents and Royalties

Enter gross rents and gross royalties using the direct-entry fields on the **INC** screen. Line 7, “Gross royalties” is an adjustment field. Any amount entered here adjusts amounts flowing from line 7 of screen **K1P**.

Note that passive activity loss rules may be applied to rental activities held by a closely held corporation or a personal service corporation.

## Capital Gains

Use screen **8949** to enter capital gains and losses. Short-term capital gains flow to Part I, lines 1b, of Schedule D. Long-term capital gains flow to Part II, lines 8b-9, of

Schedule D. The net gain from Schedule D is carried to line 8 of Form 1120. (Any net capital loss is carried to the ATT\_D attachment to offset future gains.)

## NOTE

You can import data for Schedule D using the Form 8949 Import feature. For more on using this feature, see “Form 8949 Imports” in Chapter 5 of the *Drake Software User’s Manual: Tax Year 2014*.

## Ordinary Gains and Losses

The amount generated on line 9 flows from screen **4797**. Amounts can also flow from screen **4562** to Form 4797 (making screen **4797** entries unnecessary), but only if screen **4562** shows assets sold, date, and property type.

## Other Income (Loss)

Use the **INC** screen to enter amounts for the “Other income” line of the main form. Specific **INC** screen entries are displayed on attached statements in View mode of the return.

For Form 1120, calculated amounts from the following screens also flow automatically to the “Other income” line (line 10):

- Screen **6478** (Form 6478, Biofuel Producer Credit)
- Screen **8864** (Form 8864, Biodiesel and Renewable Diesel Fuels Credit)

Additional fields for other income on the **INC** screen include:

- Amount of credit for tax on fuels
- Interest income on receivables
- Recoveries of bad debts
- Section 481 adjustments
- State tax refund
- Taxable income from insurance proceeds
- Other (itemize) (Detail worksheet is required.)

## NOTE

Data from Forms K-1 received from partnerships should be entered on the **K1P** screen (located on the first **Other Forms** tab of the **Data Entry Menu**). This information is reflected in an attached statement in View mode of the return. Losses are included with “Other Deductions” entered on the **DED** screen.

## Compensation of Officers (Form 1125-E)

Form 1125-E, Compensation of Officers is not generated automatically with the return unless it is required—in other words, unless total receipts (line 1a, plus lines 4 through 10) on Form 1120 are \$500,000 or more. To force the software to print Form 1125-E, from the **PRNT** screen, select **Force Form 1125-E, Officer Compensation**.

**Officer Information**

Use screen **E** to enter officer information and compensation amounts. Press PAGE DOWN to enter additional officers. Screen **E** totals are calculated and carried to line 12 of Form 1120.

The total of officer compensation can be entered in the **Officer Compensation** override field on the **DED** screen (generally used when Form 1125-E is not required). An entry in that field overrides any calculations from screen **E**, changing lines 12 and 27 of the 1120 but not Form 1125-E.

**TIP**

You may “truncate” the officer’s Social Security Number in the **ID number** field of screen **E**. To do so, enter either only the last four digits of the SSN or by entering five zeros and then the last four digits of the SSN. In either case, you must press CTRL+F to “force” the software to accept the truncated number.

**IMPORTANT**

Neither “FOREIGNUS” nor “APPLD FOR” is acceptable in the **ID number** field. Returns with “FOREIGNUS” or “APPLD FOR” in this field are not eligible for e-file.

**Screen E Check Boxes**

Screen **E** has two check boxes: **Signs return** and **Books in care of**. Mark the applicable box on the screen that identifies the officer who either signs the federal or state paper returns, or is the contact person for the books (state return only).

**Ownership & Participation**

The **Ownership and Participation** fields on screen **E** are required. Fields are as follows:

- **Total** — Enter the officer’s ownership percentage.
- **Common** — Enter the percentage of common stock owned by the officer.
- **Preferred** — Enter the percentage of preferred stock owned by the officer.
- **Time** — Enter the percentage of time the officer devotes to the corporation.

Enter percentage amounts in whole numbers. For example, enter 40 for 40%.

## Salaries and Wages

Use the **DED** screen to enter salaries and wages paid. Note that the **DED** screen amount is reduced by the amount, if any, of credit from Form 5884. Also note that this is an adjustment field; an amount entered here adjusts any amount entered on screen **F** (Form 1040, Schedule F, Profit and Loss from Farming) in the “Labor hired” field.

**NOTE**

The **Salaries and wages** amount should *not* include compensation of officers. Enter officer compensation data on screen **E** or as **Officer Compensation** on line 12 of the **DED** screen.

## Repairs and Maintenance

Enter repair and maintenance costs on the **DED** screen. An amount entered here is combined with the amount, if any, entered in the **Repairs and maintenance** field on screen **F**.

## Bad Debts

Use the “Bad debts” line on the **DED** screen to enter the total debts that became worthless in whole or in part during the year, but only to the extent that such debts related to a trade or business activity.

### NOTE

Enter deductible non-business bad debts as a short-term capital loss on screen **8949 (Capital Gains & Losses)**.

Cash method corporations cannot take a bad debt as a deduction unless the amount was previously included in income.

## Rents

Use the **DED** screen to enter rent paid on business property used for a trade or business activity. If the corporation rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the entity, and then complete Part V of the **4562** (screens **8** and **9**).

### NOTE

The **Rents** field is an adjustment field. An amount entered here is combined with the amount, if any, entered in the **Rent** fields on screen **F**, lines 24A and 24b.

## Taxes and Licenses

Enter tax and license amounts in the **Taxes and licenses** section of the **DED** screen. Amounts are combined and the sum generated on Form 1120, line 17 (“Taxes and licenses”). Note that credit from Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) adjusts the line 17 amount.

### NOTE

These amounts also appear on the Taxes and Licenses Attachment (ATT\_CTL), referred to on line 17 with an “ATT\_CTL” reference. To keep the notification from appearing, go to the **PRNT** screen (accessible from the **General** and the **Miscellaneous** tabs of the **Data Entry Menu**) and select **Suppress printing form and attachment references**.

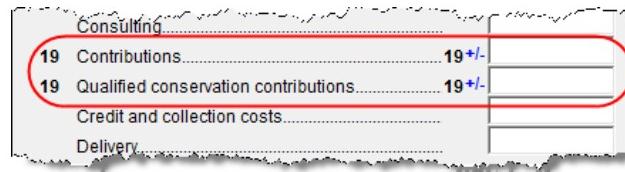
State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen are carried to the tax computation (ATT\_TAX) worksheet. The state tax amount carried from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used.

## Interest

Enter interest expense on the **DED** screen. Note that the **Interest expense** field is an adjustment field. Any amount entered here is combined with the amount, if any, entered in the **Interest** fields on screen **F**.

## Charitable Contributions

The **DED** screen provides two fields for entering data for line 19, “Charitable contributions.”



**Figure 4:** Charitable contribution lines on the **DED** screen

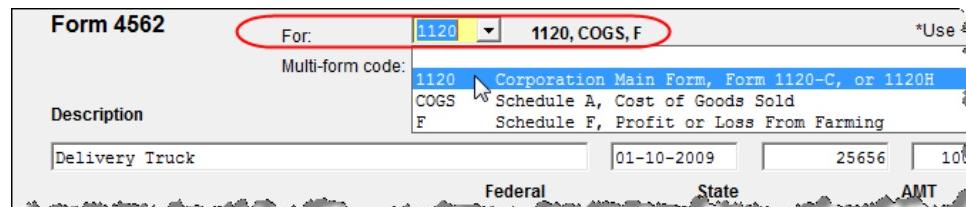
- **Contributions** — Enter the gross amount of contributions for the year that are subject to the 10% limit on deduction.
- **Qualified conservation contributions** — Enter the gross amount of contributions for the year that are not subject to the 10% limit. These contributions have a carryover period of 15 years; see IRS instructions for details.

The program calculates the contributions allowed and determines carryover capability for amounts entered in both fields for line 19 and reflects the applicable amount on Form 1120. (Refer to the contribution limitation/carryover worksheet (WK\_CNTRB) for calculation of allowed amount.) Contribution carryovers from prior years are entered on the **LOSS** screen.

Note that both fields of line 19 are adjustment fields; entries here adjust amounts flowing from screen **K1P**, line 13, codes **A** and **B**.

## Depreciation

Enter depreciation on the **4562** screen. Select a form from the **For** drop list (Figure 5) to associate the depreciable item with the correct form or activity. Data from the **4562** screens is calculated and carried to Form 1120 and to the selected schedules or forms.



**Figure 5:** Selecting Form 1120 from the **4562** screen **For** drop list

## NOTE

For more on the **For** drop list in Drake, see “Associating One Screen with Another,” in the *Drake Software User’s Manual: Tax Year 2014*

## Depletion

Enter depletion deductions on the **DED** screen. See Form 1120 instructions and Pub. 535 for more information on depletion.

## Advertising

Enter advertising expenses on the **DED** screen.

## Pension and Profit-Sharing

The software reduces this expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs.

## Domestic Production Activities

Use screen **8903** to complete Form 8903, Domestic Production Activities Deduction (DPAD). The calculated total of screen **8903** flows to line 25 of Form 1120.

### NOTE

The DPAD is not allowed on returns with a net operating loss (NOL) for the current year. It also cannot be used to create a current-year loss.

## Other Deductions

Enter all other deductions on the **DED** screen. The program calculates these amounts and incorporates the total into line 26 (“Other deductions”) of Form 1120. The following deductions, credits, adjustments, and exclusions also flow to line 26:

- Amortization from Form 4562
- Credit from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion
- Credit from Form 8941, Credit for Small Employer Health-Insurance Premiums

### NOTES

Drake automatically calculates meals and entertainment limitations.

A detail (CTRL+W) worksheet is required for the “Other (itemize)” field. The program automatically generates a worksheet if an entry is made here, or in any other field where a worksheet is required by the IRS.

## NOL Carrybacks and Carryforwards

Enter NOL carrybacks from future years to the current year on screen **J (Loss Carry-back, Tax Computation, Payments)**. To enter multiple carryback amounts, use a detail (CTRL+W) worksheet.

Use the **LOSS** screen to enter NOL carryforwards, capital losses, and contribution carryforwards from prior years. Use screen **J** to enter current-year carrybacks to prior years.

## Tax, Refundable Credits, and Payments

Screen **J** has fields for completing the “Tax, Refundable Credits, and Payments” section of Form 1120. Note that some fields are overrides. Press F1 to view more information on a field.

## Total Tax

For corporations that belong to a controlled group, complete all applicable fields on screen **J**. If allocating income to the various brackets on this screen, you must enter 0 (zero) in the fields of the brackets to which no income is allocated.

The total tax from Schedule J is calculated and carried to line 31 of Form 1120.

### NOTE

Controlled groups are also required to complete Schedule O. Use the **O** screen in Drake to complete Schedule O. See “Schedule O (Controlled Group Information)” on page 28.

## Estimated Taxes and Applied Refunds

Enter on screen **ES** the estimated corporation taxes paid. If necessary, use screen **W** to override 2014 estimated taxes paid and apply any overpayments from 2014 to 2015.

### NOTE

Estimate vouchers are not used in federal corporation tax returns.

#### Over-payment

Overpayments will not be automatically applied unless 2015 estimates are being calculated. If no estimates are required, enter the application of the overpayment using the **Overpayment applied** override fields.

#### Quick Refund

To file Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, go to the **PRNT** screen (accessible from the **General** and the **Miscellaneous** tabs of the **Data Entry Menu**) and mark the **Calculate Form 4466** box. This is the only entry necessary to produce the form. (There is also a link to the **PRNT** screen from the first **Other Forms** tab of the **Data Entry Menu**. Click **Application for Quick Refund**.)

#### Under-payment

Use screen **2220** to enter information for Form 2220, Underpayment of Estimated Tax by Corporations. Note that the **2220** screen in Drake consists of two screens. Press PAGE UP and PAGE DOWN to move from screen to screen.

### IMPORTANT

The program retains the underpayment and penalty rates as of 12/31 of the calendar year. If a corporation has a fiscal year end, you must enter the effective rates manually.

#### State Estimates

Enter 2014 estimates and 2015 overpayments for state returns on the **ES** screen. For the federal return, to override 2014 estimates and apply overpayments to 2015, use screen **W**.

## Direct Deposit of Refunds

The IRS requires that Form 8050, Direct Deposit of Corporate Tax Refund, be submitted with an e-filed return in order for a corporation’s refund to be direct-deposited. To access this form in Drake, go to the **DD** screen, accessible from the **General** tab.

When filling out the **DD** screen:

- If the federal refund is to go to the account listed, select **Yes** for the **Federal selection** drop list; otherwise, select **No**. (Default is **Yes**.)
- If a state refund is to go to the account listed, select the state abbreviation from the **State/City selection** drop list.
- Enter the name of the financial institution, the routing number (**RTN**), the account number, and the type of account (**Checking** or **Savings**).
- Re-enter the routing number, account number, and type of account to verify (Figure 6).

Name of financial institution	RTN	Account number	Type of account
First Bank and Trust	123456789	9876543210	<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings
	123456789	9876543210	<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings
Repeat Account Information			

**Figure 6:** Federal section of **DD** screen (also **8050** screen)

If receiving refunds from different state tax authorities, use the **State Account** boxes on the **DD** screen to indicate where other state refunds should be deposited.

## Electronic Funds Withdrawal (Direct Debit)

Use the **PMT** screen, accessible from the **General** tab, to indicate that the balance due for an e-filed return should be withdrawn (direct-debited) from an account.

## Program Defaults and Overrides

By default, the program indicates that the entire balance due (line 34, “Amount owed,” of Form 1120) is to be withdrawn on the return due date. To indicate otherwise, complete the **Requested payment date** override fields (see Figure 7 on page 16) for the applicable payment. If the return is e-filed on or before the due date, the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the date the return is transmitted.

## Required Information

A **Withdrawal selection** (item 1 in Figure 7 on page 16) is required if the program is to direct tax authorities to withdraw funds from the corporation’s bank account.

The screenshot shows the 'Account Information' section of the PMT screen. It includes fields for 'Withdrawal selection' (dropdowns for Federal selection and State/city selection), 'Name of financial institution', 'RTN', 'Account number', 'Type of account' (checkboxes for Checking and Savings), 'Federal' payment amount and requested date, and 'State' payment amount and requested date. Item 1 points to the withdrawal selection dropdowns. Item 2 points to the account information section. Item 3 points to the payment return type checkboxes (1120, 7004, 1120X).

**Figure 7:** Required fields on **PMT** screen: withdrawal selection (1); account information (2); specified return (3)

The name of the financial institution, RTN, account number, and account type are required. As with the **DD** screen, the **RTN**, **Account number**, and **Type of account** data must be entered twice (item 2 in Figure 7).

Finally, the **PMT** screen must indicate the return to which the payment data applies (item 3 in Figure 7). Mark the box of the applicable return type: **1120**, **7004**, or **1120X**.

## Withdrawal from Multiple Accounts

Only one account can be designated for direct debit of funds for payment of federal or state taxes. To have state amounts withdrawn from an account other than the account indicated for federal payments, complete the fields in the **State Account** sections of the **PMT** screen.

**NOTE** Neither the federal nor the state balance due can be paid from more than one account.

## Filing an Extension

Calendar year returns are due on March 16, 2015. By filing Form 7004, a corporation can extend the deadline six months to September 15. Fiscal year returns are due on the 15th day of the third month after the end of the corporation's year. The 7004 extends the deadline six months.

**NOTE** An 1120 return is due no later than eight-and-a-half months after the close of the corporation's tax year.

Use one of the following options to file an extension for an 1120, 1120-C, or 1120-H:

- Go to the **7004** screen in Drake and select **Generate an extension**. Complete any other applicable fields on the screen.
- Go to the **PRNT** screen and select **Prepare Form 7004 extension based on screen 1 info**.

## Signing the Return

Electronic PIN signatures are required for e-filed returns. If e-filing a return, complete all fields on the **PIN** screen. A return cannot be e-filed if the **PIN** screen fields, including the title and signature (name) of the officer signing the return, are not completed.

An 1120 return must be signed and dated by one of the following individuals:

- The corporation's president, vice president, treasurer, assistant treasurer, or chief accounting officer
- Any other corporate officer, such as a tax officer, who is authorized to sign

If the return is prepared by a paid preparer, the preparer must complete the required information and sign the return in the space provided on the **PIN** screen. If it is prepared by an employee or officer of the corporation, go to screen 1 and select **NONE** in the **Firm #** and **Preparer #** drop lists.

To have the preparer's name and address information displayed on the printed return:

- If the return preparer and ERO (entered in **Setup > ERO**) are the same:
  - Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
  - Complete the **PIN** screen for the return.
- If the return preparer and ERO are *not* the same:
  - Go to the **PRNT** screen for the return and complete the field labeled **PIN for preparer's alternative electronic signature**. The PIN entered should match the one entered for the preparer in **Setup > Preparer(s)**. (For more information, press F1 in this field.)

### NOTE

**Setup > ERO** must still be completed in Drake for e-filing. For information on how to complete this setup window, see *Drake Software User's Manual: Tax Year 2014*. See the IRS instructions for further details on signature requirements.

## Amending a Return

The program can automatically fill the **1120X** screen for Form 1120X, Amended U.S. Corporation Income Tax Return.

### CAUTION

When you amend a return in Drake, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see "Archive Manager" in Chapter 6, "Return Results," of the *Drake Software User's Manual: Tax Year 2014*.

### Returns Previously Prepared in Drake

From the **Data Entry Menu** of an 1120 return, enter an X in the selector field and press ENTER. (Screen X is also accessible from the first **Other Forms** tab.) At the prompt, select **Yes** to automatically fill the screen with data from the original return (that is, the return as originally entered in Drake). If the corporation's name or address

information has changed, enter the new information on screen **X**. Make all other necessary changes to the *regular data entry screens*.

Open screen **2X** (or press PAGE DOWN while in screen **X**). Enter the line number from the **X** screen that corresponds with the changes that were made in data entry. (For instance, if you made a change in the tax on screen **J**, enter 4 (for “Tax”) in the **Line Number** field of the **2X** screen.) Enter an explanation in the **Explanation of changes** text box.

If more than one item was changed in data entry, press PAGE DOWN to open another screen **2X**. Enter the line number from screen **X** that corresponds to this change and enter another explanation.

When you go to View mode, the program calculates the amended return.

## New Returns

To amend a return not previously prepared in Drake, create an 1120 return in Drake and open screen **X**. Complete the applicable fields on this screen, and then enter the amended data in the appropriate other screens, as described in the example below.

Example: An 1120 return was filed using a different tax software, but gross rental income was not reported on line 6 of the return. To amend the return:

1. From the **Data Entry Menu** of an 1120 return, open screen **X**.
2. Complete all applicable fields on screen **X**.
3. Close screen **X** and open the **INC** screen.
4. Enter the amount of unreported income on line 6.
5. Close the **INC** screen and open screen **2X**.
6. Enter the line number from the **X** screen that corresponds to the changes that were made in data entry. (For this instance, if you made a change to income on the **INC** screen, enter 1 (for **Total Income**) in the **Line Number** field of the **2X** screen.)
7. Enter an explanation in the **Explanation of changes** text box.
8. Calculate and view the return. Note the adjustments made on the Form 1120X.

## E-filing an Amended Return

To add Form 1120X to the queue for e-file go to the **EF** screen for the return (accessible from the **General** tab of the **Data Entry Menu**) and mark the **1120-X** box. For detailed instructions on e-filing the returns in the queue, see Chapter 8, “e-File,” in the *Drake Software User’s Manual: Tax Year 2014*.

# Schedule K

Use screen **K** to enter data for Schedule K, Other Information. Screen **K** should also be used for Schedule K of Form 1120-C. Detailed here are some specific areas that might need your attention.

## Schedule K, Line 3

On line 3 (line 5 for 1120-C), enter the EIN and name of the parent corporation if the corporation is a subsidiary in an affiliated group or a parent-subsidiary controlled group.

Be aware of the following guidelines from the IRS:

- “If the corporation is an “excluded member” of a controlled group (see definition in the Instructions for Schedule O (Form 1120)), it is still considered a member of a controlled group for this purpose.
- “An affiliated group is one or more chains of includable corporations (section 1504(a)) connected through stock ownership with a common parent corporation. The common parent must be an includable corporation and the following requirements must be met.
- “The common parent must directly own stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of at least one of the other includable corporations.
- “Stock that represents at least 80% of the total voting power and at least 80% of the total value of the stock of each of the other corporations (except for the common parent) must be owned directly by one or more of the other includable corporations.
- “For this purpose, the term ‘stock’ generally does not include any stock that (a) is nonvoting, (b) is nonconvertible, (c) is limited and preferred as to dividends and does not participate significantly in corporate growth, and (d) has redemption and liquidation rights that do not exceed the issue price of the stock (except for a reasonable redemption or liquidation premium). See section 1504(a)(4).

## Schedule K, Line 4

If a corporation, partnership, trust, individual, or estate owned, directly or indirectly, 20 percent or more, or owned, directly or indirectly, 50 percent or more of the total voting power of all classes of the corporation’s stock entitled to vote, the applicable data appears on Schedule G. In Drake, Schedule G data is entered on screens **G1** and **G2**, accessible through the **G1 Screen** and **G2 Screen** links on line 4 of screen **K**, or from the **General** tab of the **Data Entry Menu**.

If the stock is owned by *any foreign or domestic corporation, partnership, or trust*, enter on screen **G1** the name and EIN of the entity, the type of entity (corporation, partnership, or trust), the country of the entity’s organization, and the percentage of stock the entity owns.

If the stock is owned by an *individual or estate*, enter on screen **G2** the name and ID number of the individual or estate, country of citizenship, and percentage of stock owned.

Use the CTRL+PAGE DOWN function to open additional (blank) **G1** or **G2** screens. For more information on line 4 of Schedule K, see the IRS instructions.

## Schedule K, Line 5

If the corporation owned stock in other corporations or partnerships, or the beneficial interest in a trust, enter the information on the **K5A** or **K5B** screen. Click the **K5A Screen** or **K5B Screen** links on the **K** screen or from the **General** tab of the **Data Entry Menu** to access fields for entering this information.

Use the CTRL+PAGE DOWN function to open additional (blank) **K5A** or **K5B** screens. For more information on line 5 of Schedule K, see the IRS instructions.

## Schedule K, Line 7

Enter information on line 7 of screen **K** if a foreign person owned, directly or indirectly, at least 25% of the total voting power of all classes of the corporation's stock entitled to vote, or the total value of all classes of stock of the corporation. (If there is more than one 25%-or-more foreign owner, complete the fields for the person with the highest percentage of ownership.) Enter the percentage that person owned and the owner's country of residence.

### NOTE

Generally, a 25% foreign-owned corporation with a reportable transaction during the tax year must file Form 5472, Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business (screen **5472** in Drake). See Form 5472 for filing instructions and penalties for failure to file.

See section 6038A(c)(5) and the related regulations for the constructive ownership rules of section 318 that apply in determining if a corporation is foreign owned.

### NOTE

If another entity owns 20% or more of the client's corporation, or owns 50% or more of the corporation's stock entitled to vote, see "Schedule K, Line 4" on page 19.

## Schedule K, Line 13

On line 13 of screen **K**, select **Yes** if the corporation's total receipts (line 1a + lines 4 through 10 on page 1 of Form 1120) are less than \$250,000 for the tax year, and its total assets at the end of the tax year are less than \$250,000.

If the answer to line 13 is **Yes**, in the lower text box of line 13 enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. (An entry here is added to the amount calculated from entries on line 5 (Distributions) on the **M2** screen and reflected on page 4, line 13, of the 1120 return.)

### NOTE

If the answer on line 13 is **Yes**, the corporation is not required to complete Schedules L, M-1, or M-2. To force the software to print these forms, go to the **PRNT** screen and select **Force Schedules G (1120-C), L, M-1, and M-2 to be printed**.

## Schedule K-1

The 1120 package includes a **K1P** screen (accessible from the first **Other Forms** tab of the **Data Entry Menu**) for entering information from Form 1065, Schedule K-1. This screen works the same as it does for the other packages, with amounts being carried automatically to the appropriate forms, schedules, and lines. In addition:

- Ordinary income is carried to Form 1120, page 1, line 10, “Other income,” with the partnership name and EIN (required information)
- Ordinary losses are carried to Form 1120, page 1, line 26, “Other deductions,” with the partnership name and EIN (required information)

Codes or lines that don't flow to any other place may require additional information not available to the program and must be manually entered in the proper place in the return.

## State-Specific Information

The program automatically generates a return for the corporation's resident state. Use screen **2** to enter company information as it should appear on the state return.

### NOTES

The link to screen **2** is on the **States** tab, (or enter **2** in the selector field and press **ENTER**.)

The company information fields on screen **2** apply for the resident state only.

Company information includes the type of return that applies for state purposes (consolidated, composite, controlled group, multi-state), and state-specific dates and numbers for identification.

## Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2**. This screen has fields for the following types of contact information:

- Name and address of registered agent
- Principal place of business
- “Books in care of”
- General contact information for the name, title, e-mail address, ID number, and telephone number of the corporation's contact person.

## Other States

Data for other states must be entered manually in state data entry. To access state data entry, select the **States** tab from the **Data Entry Menu**, or enter the two-letter state code in the selector field and press **ENTER**.

### Multi-State Appor-tionment

Enter sales, payroll, and property factors on the **APPT Multi-State Apportionment** screen. This screen (Figure 8 on page 22) provides one central location for entering all state apportionment information instead of having to open each needed state's screen.

In addition to making data input faster and easier, this feature provides two worksheets: a summary worksheet (SA-SUM~) that can be used for verifying input, and a reconciliation worksheet (SA-REC) that ties the total of the state amounts to the federal return figures. These worksheets are available in View mode.

The individual state apportionment screens will continue to be available in Drake15 but will be used to override data entered on the **APPT** screen. No state apportionment-related screens will be updated from Drake13 to Drake14.

Figure 8: State APPT screen

## NOTE

Mark the **Zero Apportionment** check box (Figure 8) to add a state but not include any apportionment data. This will include the state on the apportionment summary worksheet (SAC-SUM~), available through View mode.

### APPT Screens

The **APPT** screen is opened to the **Sales** tab. Links at the top of this screen open the **Payroll**, **Property**, and **Additional Property** information tabs for each state selected. These screens and their uses are listed in Table 1:

Table 1: APPT Screens

Screen	Information
<b>Sales</b>	Select state; enter sales, returns and allowance, and other income-related information for each selected state
<b>Payroll</b>	Enter salary, wage, commission, and labor amounts for each selected state
<b>Property</b>	Enter beginning and ending amounts of common apportionment factors, plus select additional apportionment factors from drop lists
<b>Additional Property</b>	Select additional apportionment factors from drop lists

## NOTE

The **Ending** amount entered on the **Property** and **Addition Property** screens in Drake14 will become the **Beginning** amount for property on the **APPT** screen when the client's return is updated next year in Drake15.

You may enter up to four states on one **APPT** screen. If you need more than four states, press PAGE DOWN for a new **APPT** screen. The same state can be entered more than once when additional fields are needed.

Select **OT Other Reconciliation** from the **State Selection** drop list when using the reconciliation worksheet. Not every item appearing on the federal return may be subject to multi-state apportionment. When you select **OT**, the data entered becomes a reconciling adjustment amount to aid in tying to the federal return.

Enter as much or as little detail as the states require. If a state does not require any information to be entered, no information will flow to that state's return.

## Other Information and Overrides

Use screen **1** to enter the following additional information:

**Resident State** — If the corporation has a mailing address in one state but does business in another, select the state in which the corporation does business from the **Resident State** drop list.

**Drake Codes and Overrides** — Screen **1** includes fields for miscellaneous codes, invoice numbers, and several overrides. See “Listing a Different Firm, Preparer, or ERO on a Return” in Chapter 2 and “Miscellaneous Codes” in Chapter 5 of *Drake Software User’s Manual: Tax Year 2014* for more information.

## Schedule L (Balance Sheet per Books)

Schedule L is required if the corporation’s total receipts for the tax year or its total assets at the end of the year are greater than \$250,000.

### Flow of Information

Many of the entries made elsewhere (such as inventory information from Schedule A) flow automatically to the generated Schedule L. Depreciable asset information from the **4562** screen and intangible assets and amortization also flow to Schedule L.

Use the corporation’s balance sheet to enter data directly onto Schedule L.

### NOTE

See “Importing Trial Balance Information” on page 47 for information on using the trial balance import to enter Schedule L data.

## The SCH2 Screen

The **SCH2** screen (see Figure 9 on page 24) is used to provide detailed information required by the IRS for certain lines on Schedule L. The amounts are carried to Form 1120 and printed on an attached statement.

This screen can also be used in place of the actual **L** screen in Drake. If you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on screen **L**.

## NOTE

To access the **SCH2** screen from screen **L**, click an **SCH2 Screen** link. Press Esc to return to screen **L**.

## Entering Information

To create a statement for a line using the **SCH2** screen, select the desired line from the **Line Number** drop list and enter descriptions and their corresponding amounts.

Line Number		
6 Other current assets		
Description	Beginning of year	End of year
Notes receivable	0	3020
Parts inventory	54321	1020
Loans receivable	10203	9595
Taxes prepaid	11223	

**Figure 9:** SCH2 screen fields for line number, description, and amounts

Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen.

## NOTE

All line selections and screen descriptions are carried to the next year, and year-end amounts are carried to the beginning-of-year column, when the returns are updated.

## Statements

The total amounts entered on the **SCH2** screen do not show up on the actual **L** screen in the program. They are, however, printed on the return where needed, with references to the corresponding statements.

If a line is required, a statement (labeled “STATEMENT” or “STM” in View mode, depending on your Setup Options) is produced and is e-filed with the return.

## SCH2 and Trial Balance Import

Typically, one or more **SCH2** screens are needed for Schedule L items. Data for the **SCH2** screens cannot be entered directly into the trial balance worksheet. Although the amounts must be included in the trial balance worksheet for the worksheet to balance, the **SCH2** detail screens must be created separately from the worksheet. When the return is produced, Schedule L will reflect both the amounts imported from the trial balance worksheets (where direct entry was allowed) and the totals of the **SCH2** screen amounts.

See “Importing Trial Balance Information” on page 47 for detailed instructions using the trial balance worksheet for **SCH2** items and amounts.

## Autobalance

Autobalance forces Schedule L to balance for both the beginning- and end-of-year amounts. The program adjusts the unappropriated retained earnings amount on Schedule L by the difference between the total assets and the total liabilities and capital *before* the adjustment. For example, if assets are \$1,000 and liabilities and capital are \$900, the program increases the unappropriated retained earnings by \$100.)

The program makes the adjustments due to differences in the balance sheet. Incorrect data entry could cause these differences but they are usually the result of one of the following issues:

- An asset was deleted from **4562** screen (**Depreciation - Detail Items**) instead of being indicated as sold.
- Beginning inventory amounts were adjusted on the Schedule A or ending inventory amounts were entered incorrectly.
- Amounts were erroneously deleted from or changed on screen **L**.

To reconcile the differences, it is best to compare the corporation's beginning and ending balance sheet amounts for the tax year.

To turn off this feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

**NOTE** If you are using trial balance import, autobalance must be turned off prior to import. See "Preparing to Use Trial Balance Import" on page 47.

## Schedules M-1 and M-3 (Reconciliation of Income per Books)

Page 1 of Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million, and pages 1-3 of Schedule M-3 are required if the total assets equal or exceed \$50 million. If the corporation's assets do not equal or exceed \$10 million but you want to voluntarily file Schedule M-3, or if the corporation's assets do not equal or exceed \$50 million and you wish to file the complete M-3, go to screen **M3** and make a selection from the **Voluntarily file M-3** drop list. Choose to print just page 1 of Schedule M-3 or the complete M-3.

**NOTE** If the corporation is filing Schedule M-3, Schedule M-1 will not be generated. Any entries on the **M1** screen (for Schedule M-1) should be deleted.

## Schedule M-1

Schedule M-1 shows all items of income and expense that are not subject to tax, plus those accounting items that are not income tax items. When required, the corporation must reconcile book income with the taxable income.

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as “permanent” or “temporary,” and as “favorable” or “unfavorable.” Examples of both kind of differences are shown in Table 2.

**Table 2:** Examples Book-to-Tax Differences for Schedule M-1

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	- Meals & entertainment limitations - Penalties - Tax-exempt interest
Temporary	Items that will be reported for both tax and book purposes, but not during the same tax year	- Depreciation - Gains or losses on the sale of depreciated assets
Favorable	Items that reduce taxable income	- Instances in which tax depreciation amount is greater than book depreciation amount
Unfavorable	Items that increase taxable income	- Disallowed meals & entertainment

## Schedule M-3

Schedule M-3 is completed using the following screens, all found on the **General** tab of the **Data Entry Menu**:

- **M3, M31, M32, and M33** — for **Parts I, II, and III** of the Schedule M-3
- **M3B** — for Schedule B Additional Information for M-3 filers
- **SCH3** — for subsidiary schedules for Schedule M-3 and Form 8916-A
- **M3S** — for supplemental statements
- **8916** — for reconciling of M-3 with taxable income for mixed groups
- **916A** — for supplemental attachments to the M-3

If the corporation is required to file (or voluntarily files) Schedule M-3, the corporation *must* file Form 1120 and all attachments and schedules, including Schedule M-3.

### NOTE

Certain income and deduction amounts and adjustments flow from Form 1120 to Schedule M-3 and Form 8916A in the program, but all other M-3 data must be entered manually.

If Schedule M-3 is present in a return, no Schedule M-1 is generated.

#### Parts I-III

Part I of Schedule M-3 asks certain questions about the corporation’s financial statements and reconciles financial statement worldwide net income (loss) for the corporation (or consolidated financial statement group, if applicable) as reported on Schedule M-3, Part 1, line 4, to net income (loss) per the income statement of the corporation for U.S. taxable income purposes, as reported on Schedule M-3, Part 1, line 11.

Parts II and III reconcile financial statement net income (loss) for the U.S. corporation (or consolidated tax group, if applicable) as reported on Schedule M-3, Part II, line 30 (column d), to taxable income (loss) as reported on Form 1120, page 1, line 28.

The software carries certain items that are readily available, but it does not balance the M-3 automatically. To ensure that the M-3 balances, additional data entry may be required on the **M31**, **M32**, and **M33** screens.

### Schedule B

Schedule B is required when an M-3 is present in a return. Use screen **M3B** for Form 1120 Schedule B, Additional Information for M-3 Filers.

### The SCH3 Screen

The **SCH3** screen is similar to the **SCH2** screen and is used to provide detailed information for Schedule M-3 and Form 8916-A. It can be used in place of the actual **M3** and **8916A** screens. For more information on using this type of screen, see “The SCH2 Screen” on page 23.

## Schedule M-2 (Unappropriated Retained Earnings)

Information from Schedule M-2, “Analysis of Unappropriated Retained Earnings” ties to the Schedule L, line 25, portion of the balance sheet. Increases, distributions, and other decreases to the retained earnings are entered on Schedule M-2. Unappropriated retained earnings refer to corporation income that has not been distributed to shareholders that is available for dividend distribution.

### M-2 Troubleshooting

The beginning Unappropriated Retained Earnings flow from Schedule L (Balance Sheet), and the “Net Income (Loss) per books” flows from the completed Schedule M-1 or M-3 on Form 1120. These numbers, combined with amounts entered on the **M2** screen, are used to calculate the ending Unappropriated Retained Earnings.

If the computed amount does not match the amount in the completed Schedule L (Balance Sheet), the system produces an EF message that says the M-2 is out of balance. Solving this problem can be challenging, since it can have any of several causes:

- The beginning balance sheet entries are inaccurate
- The Beginning of Year unappropriated retained earnings amount (line 25 on screen **L**) entered on the **SCH2** screen for line 24 (Retained earning-Appropriated) is incorrect
- Autobalance is not turned on (See “Autobalance” on page 25.)
- The ending balance sheet entries are inaccurate
- The net income per the tax return is inaccurate
- The reconciling items on Schedule M-1 or M-3 need to be adjusted
- The reconciling items on Schedule M-2 need to be adjusted.

If the items are off by a couple of dollars or less, resolve the problem by entering a reconciling item on the **M2** screen:

1. Double-click in a field on the **M2** screen to open a detail (CTRL+W) worksheet.
2. Enter the word “Rounding” as the description and enter an amount.
3. Press Esc. The program returns to the **M2** screen.

If the problem is not resolved, it may be necessary to do a detailed comparison between the corporation's financial records and the completed return information.

## Schedule O (Controlled Group Information)

Use screens **O** and **OM**, accessible from the first **Other Forms** tab, to fill out Schedule O, Consent Plan and Apportionment Schedule for a Controlled Group. Press PAGE UP and PAGE DOWN to navigate from screen to screen.

### NOTE

Members of a controlled group are entitled to one \$50,000, one \$25,000, and one \$9,925,000 taxable income bracket amount, in that order.

## AMT Adjustments and Other Items

Alternative Minimum Tax (AMT) adjustments are limited among the members of a controlled group. These should be entered in the **Other** information fields of the **OM** screen (Figure 10).

Other	
Description	Amount

Figure 10: Other information fields for other AMT adjustments

## Types of Controlled Groups

At the top of screen **O**, mark the box indicating the type of controlled group for which Schedule O is reporting. Controlled group types are briefly defined below. See Schedule O instructions for more details.

- **Parent-subsidiary group** — One or more chains of corporations that are connected through stock ownership with a common parent corporation if certain conditions apply.
- **Brother-sister group** — Two or more corporations if the same five or fewer persons who are individuals, estates, or trusts directly or indirectly own stock of each corporation with a certain amount of voting power.
- **Combined group** — Three or more corporations, each of which is part of a parent-subsidiary group or a brother-sister group, and one of which is (1) a common parent corporation included in a group in a parent subsidiary group, or (2) included in a group of corporations in a brother-sister group.
- **Life insurance companies only** — Two or more insurance companies subject to tax under section 801, that are members of one of the previously described groups, are treated as a particular type of controlled group.

## Line 5, Apportionment Plan Status

The corporation is required to provide information about the status of the group's apportionment plan. Select the applicable box on screen **O** to show the status of the controlled group's apportionment plan. If adopting a plan or amending the current plan for a prior tax year, at least one year must remain on the statute of limitations for each group member for assessing any resulting deficiency.

## Credits and Adjustments

Certain credits require an adjustment to either income or expenses. Drake14 carries the required adjustments to the appropriate line of the return and to Schedule M-1 or M-3. Manually reducing the expenses/deductions or increasing the income for these credits causes the return to be out of balance.

Adjustments are made to other income for the credit amounts for the following credits:

- Form 6478, Biofuel Producer Credit
- Form 8864, Biodiesel and Renewable Diesel Fuels Credit
- Form 8912, Credit to Holders of Tax Credit Bonds (interest income)

Adjustments are made to the appropriate deduction/expenses for the credit amounts for the following credits:

- Form 5884, Work Opportunity Credit
- Form 6765, Credit for Increasing Research Activities
- Form 8820, Orphan Drug Credit
- Form 8844, Empowerment Zone and Renewal Community Employment Credit
- Form 8845, Indian Employment Credit
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Form 8881, Credit for Small Employer Pension Plan Startup Costs
- Form 8932, Credit for Employer Differential Wage Payments
- Form 8941, Credit for Small Employer Health Insurance Premiums

## Adjusting Charitable Contributions/NOL

Corporations with a net operating loss (NOL) carryover from any taxable year must apply the special rule of IRC section 170(d)(2)(B) for charitable contributions. The rules are designed to prevent a double tax benefit through interaction of NOL and charitable contribution carryovers. The excess charitable deduction can reduce taxable income only once. Under these rules, a corporation's charitable contributions carry-over (but not the NOL carryover) must be reduced to the extent the charitable contribution deduction, in computing the taxable income of an intervening year, would increase the NOL to a succeeding year.

**Limitation on Deduction**

The total amount claimed cannot be more than 10% of taxable income (line 30) computed without regard to the following:

- Any deduction for contributions
- The special deductions on line 29b
- The deduction allowed under section 249
- The domestic production activities deduction under section 199
- Any net operating loss (NOL) carryback to the tax year under section 172
- Any capital loss carryback to the tax year under section 1212(a)(1)

To prevent the double benefit from the excess charitable contribution deduction when there is a charitable contribution on the return and an NOL carryover, the program makes the IRC section 170(d)(2)(B) adjustment. In this situation, the charitable contribution carryover amount is reduced on column C of the Contribution Limitation/Carryover worksheet (WK\_CNTRB in View mode), and the NOL carryforward is increased on the ATT\_NOL worksheet.

## Elections

The ability to make certain tax elections is included in the business packages. Elections are selected from the **Return Elections** section of the **ELEC** screen (Figure 11).

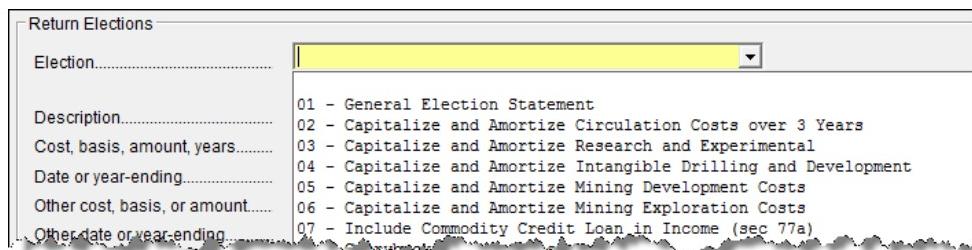
The screenshot shows a software interface titled "Return Elections". It contains several input fields and dropdown menus. At the top is a dropdown menu labeled "Election.....". Below it is a large text area labeled "Description.....". Underneath "Description" are two stacked dropdown menus: "Cost, basis, amount, years....." and "Date or year-ending.....". Below these are two more stacked dropdown menus: "Other cost, basis, or amount....." and "Other date or year-ending.....". Further down are three single-line text input fields: "City.....", "County.....", and "State.....". To the right of "State....." is a dropdown menu. Below these is a text input field labeled "Other information.....". At the bottom is a large text area labeled "Explanation.....".

Figure 11: Return Elections portion of ELEC screen

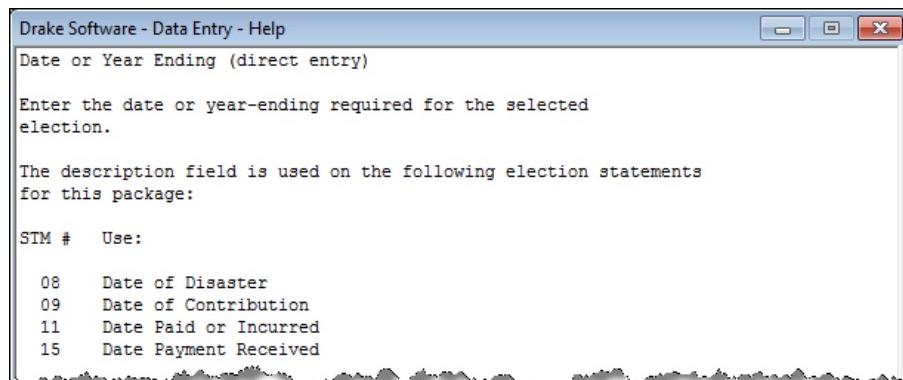
## Making an Election in Drake

To indicate that the corporation is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu** (or by typing **ELEC** in the selector field and pressing **ENTER**).
2. Make a selection from the **Election** drop list (Figure 12 on page 31).

**Figure 12: Election drop list**

3. Complete all other fields as applicable. Press F1 in any field to learn if a field is required for your selection and the type of information that may be needed. For example, the help text for the **Date or year-ending** field shows that the field is required only for election options 08, 09, 11, and 15, and it explains what, specifically, should be entered for each of these elections.

**Figure 13: Help text for Date or year-ending field on ELEC screen**

## NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election 01 (General Election Statement), you would not need to enter anything into the **Date or year-ending** field (help text in Figure 13).

To open a new ELEC screen for an additional election, press PAGE DOWN.

## Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced "STM ELXX," where "XX" is the number of the election. For example, election 01 (General Election Statement) is generated as STM EL01.

The election statement includes the election title, election wording, and any additional information required for the election, such as a date or amount.

Entries for certain fields are sometimes included in the actual election statement; other times, they are included as separate lines. Signature lines are printed as needed on some statements.

## Safe Harbor Elections

*New for 2014:* A check box was added to screen **4562** to apply a small taxpayer Safe Harbor election to a building listed in the **Description** field. An election statement will be produced and the building description as entered in the **Description** field will be included in the election statement.

**NOTE** This Safe Harbor election covers buildings only.

See IRS Reg. section 1.263(a)-3(h), IRB 2013-43, Rev. Proc. 2014-16, and Rev. Proc. 2015-14 for guidance.

### New Options on ELEC Screen

Two other elections are now available from the **Elections** drop list on the **ELEC** screen:

- Sec. 1.263(a) - 1(f) de minimis safe harbor election
- Sec. 1.263(a) - 3(n) Election

Election statements are generated with the return (Figure 14).

The screenshot shows the Drake software's ELEC screen. On the left, there's a vertical list of icons and file names: C, E PG2, 2441, 3800, 3800.PG3, 4797, 6251, 8812, 8863, 8863.PG2, 8941, 8962, 8965, 8982, 8873, 9325, ELECTION, ELECTION, STM 01, STM 02. The 'ELECTION' icon is circled in red. The main area contains an election statement: "I have filed Form 4361 and received approval from the IRS to be excluded from SE tax." Below it, detailed information is provided: Title: Section 1.263(a)-1(f) de minimis safe harbor election; Name: William Carter; Address: 1234 Main Street, Franklin, NC 28734; TIN: 400-00-6665; Statement: Taxpayer is making the de minimis safe harbor election under Section 1.263(a)-1(f). At the top right, there's a 'Z014 PGU1' label and a social security number field with '400-00-6665'.

Figure 14: Election statement generated with ELEC screen selection

The Sec. 1.263(a) - 3(h) election can be made from either the **ELEC** screen or the **4562** screen.

## Making Changes on the Fly

Use the **PRNT** screen to override most program defaults.

## Suppressing/Forcing Documents

To suppress or force the printing of certain documents, go to the **PRNT** screen and select the desired options. Many “on-the-fly” changes override the options established in Setup.

You can force the program to print the following 1120 items on a return:

- Form 1125-E
- Schedules G (1120-C), L, M-1, and M-2

- Form 4562
- Next-year depreciation listing
- Inactive returns
- PIN for the preparer's alternative electronic signature

**NOTE**

Form 1125-E is required if total receipts (line 1b + lines 4 through 10) are \$500,000 or more.

Schedules L, M-1, and M-2 are not required if receipts and total assets (Schedule K, line 13) are less than \$250,000.

The **PRNT** screen can also be used to suppress printing of the following items on a return:

- Form and attachment references (References are printed by default.)
- Form 4626, Alternative Minimum Tax—Corporations

## Calculation and Other Options

The following calculation and other options are available:

- **Calculate Form 2220 penalty** — Select this box to have the program calculate the penalty for Form 2220, Underpayment of Estimated Tax by Corporations. (The program retains the rates as of 12/31 of the calendar year. If a corporation has a fiscal year end, the preparer must enter the effective rates manually.)
- **Calculate WK\_1120W based on 2014 taxable income** — The WK\_1120W is an estimated tax worksheet based on the current tax year taxable income.
- **Calculate Form 4466 (application for quick refund)** — Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax. (A check mark in this box is the only entry needed to generate the form.)
- **Turn off autobalance** — For more information on the autobalance feature in Drake, see "Autobalance" on page 25.
- **Prepare Form 7004 extension based on screen 1 info** — Select this box to prepare a six-month extension based on the information that has already been entered into the return. Note that screen 1 must be completed to prepare an extension.

**NOTE**

To prepare Form 7004 based on information other than (or in addition to) that provided on screen 1, use the **7004**, or **EXT**, screen.

## Overriding Other Setup Options

The following program defaults can be overridden from the **PRNT** screen:

- Filing instructions (federal and state)
- Envelope coversheets (corporation, IRS, state, and city)
- Date to print on return
- Due date to print on letter and filing instructions (see note below)
- Amount on Form 1120, page 1, item D ("Total assets")

- IRS Service Center

## NOTE

A default due date for filing is printed on all letters and filing instructions generated with a return. You can override the default by entering an alternate due date in the **Due date to print on letter and filing instructions** field on the PRNT screen.

## Electronic Filing

Steps for e-filing Form 1120 are the same as for e-filing Form 1040, with the exception of bankruptcy returns, which must be paper-filed.

## Common Error Codes

If one or more of the following IRS error reject codes is generated when e-filing an 1120 return, the preparer must contact the IRS for further information. The IRS e-Help Desk telephone number is (866) 255-0654.

- **Reject Code F1120-307-01** — Filer's TIN and "Name Control" in the return header must match data in the e-file database unless Form 1120, Item E (3), check box "Name Change" is marked.
- **Reject Code R0000-900-01** — The return type indicated in the return header must match the return type established with the IRS for the EIN.
- **Reject Code R0000-905-01** — Electronic Filing Identification Number (EFIN) in the return header must be listed in the e-file database and in "accepted" status. If you get this reject code, you must update your e-file application to include the 1120 return type. This should be done at the IRS website. Review publication 3112 for details.
- **Reject Code R0000-932-01** — If "Amended Return" or (Superseded for 1120/ 1120S) check box is not selected, then Taxpayer TIN in the return header must not be the same as a TIN of a previously accepted paper return for the return type and tax period indicated in the tax return.
- **Reject Code R0000-933-01** — If "Amended Return" or (Superseded for 1120/ 1120S) check box is not selected, then Taxpayer TIN in the return header must not be the same as a TIN of a previously accepted electronic return for the return type and tax period indicated in the tax return.

## Special Types of Returns

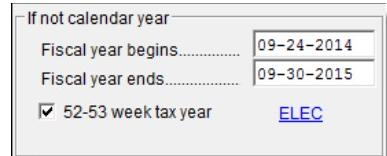
This section covers 52-53-week year returns and inactive returns. Both types of returns can be e-filed using Drake.

### Electing a 52-53-Week Year (Initial Return)

To elect a 52-53-week year, a *new* entity (one that has never filed a return) must enter data on both screen 1 and the ELEC screen.

To elect a 52-53-week year for any entity:

1. In the **If not calendar year** section of screen 1, enter the **Fiscal year beginning** and **Fiscal year ending** dates. Use MMDDYYYY format, as shown in the example in Figure 15.
2. Mark the **52-53-week tax year** box.

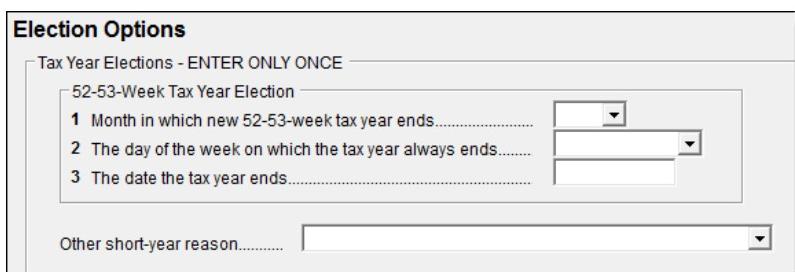


**Figure 15:** In this example, the fiscal year begins 09/24/2014 and ends 09/30/2015 (the Wednesday closest to the end of September), giving the entity a 53-week year for 2014.

## NOTE

An entity that has filed returns in the past must complete only steps 1 and 2 of this process. An entity that has never filed a return before must continue with steps 3 through 6.

3. Click the **ELEC** link to open the **Election Options** screen (Figure 16).



**Figure 16:** Elections for 52-53-week tax years

4. For line **1**, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)
5. For line **2**, select the day of the week the tax year always ends.
6. For line **3**, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ending** field on screen 1).

## NOTE

Once a 52-53-week year is selected, the entity must use that accounting period every year. To change accounting periods, the entity must submit to the IRS Form 3115, Application for Change in Accounting Method.

In subsequent years, only the **52-53-week tax year** check box on screen 1 must be marked; the program automatically updates the dates.

## Inactive Returns

Entities that are inactive but still required to file returns may e-file *inactive* returns in Drake. To indicate that a return is inactive:

1. Go to the **PRNT** screen, accessible from the **General** tab.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, in the box above line 1c). Zeros are displayed where required by the IRS in order for amounts to be properly included in the e-file data.

## IMPORTANT

All EF Messages must be cleared in order to e-file an inactive return.

For detailed instructions on e-filing returns in Drake, see *Drake Software User’s Manual: Tax Year 2014*.

## Binary Attachments

Binary, or PDF, files can be attached to certain tax forms. These attachments are generally signature or third-party documents such as a copy of a signed lease or a signed appraisal statement. In some instances, the IRS requires that a document be attached to an e-filed return; in other instances, a document can be attached voluntarily to support or explain an entry in the return. In either case, a PDF must be available to be attached to the return in order to be e-filed with the return.

Attach files through the **PDF Attachments** screen, accessible from the **Electronic Filing** section on the **General** tab of the **Data Entry Menu**.

## The PDF Attachment Process

Three main steps are involved in the PDF attachment process in Drake:

1. Creating a PDF file to be attached
2. Informing the program that a PDF file will be sent with the return
3. Attaching the PDF file for e-filing

These steps are described in the following sections.

### Creating a PDF File

To create a PDF file:

1. Scan the document to be attached to the return as a PDF document.

### TIP

It's a good idea to use the DDM scanning feature for this step.

2. Save the document to your client's DDM file, your computer's desktop, or anywhere you can readily find it.

### NOTE

Many types of documents (for instance, documents created in Microsoft Word) can be printed or “saved” as PDF files if you have a PDF printer (such as Adobe Reader) installed.

### Adding PDF Files

To indicate in the software that a PDF file will be sent with the return:

1. Go to the **PDF** screen in data entry.

2. Fill out the columns on the screen. See Table 3 for examples.

**Table 3: PDF Attachment Window Columns**

Column	Description	Examples
<b>Reference Source</b>	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1120
<b>Description</b>	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
<b>File name</b>	Distinctive, easily recognizable file name, followed by ".pdf"	- TitleHouseOakSt.pdf - AppraisalLot1234.pdf

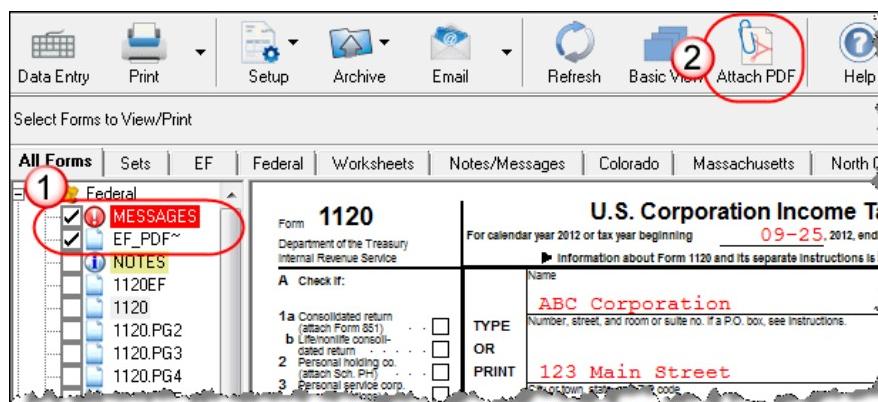
3. Exit the PDF screen.

Because you've indicated that a PDF file is attached, the program generates an EF message regarding the attachment when the return is calculated.

## Attaching Documents to the Return

To attach a PDF file to a return:

- From the return, click **View**. If anything was entered on the **PDF** screen (see Figure on page 36), there will be three PDF-related items in the **View/Print** window:
  - A red MESSAGES alert (see item 1 in Figure 17)
  - An EF\_PDF~ worksheet that lists all items entered on the **PDF** screen (see item 1 in Figure 17)
  - An **Attach PDF** button on the toolbar (item 2 in Figure 17)



**Figure 17: The red MESSAGES file and the Attach PDF button**

- Click the **MESSAGES** file to view the EF Message, which provides information on how to attach the required documents to the return.
- Click the **Attach PDF** button in the toolbar at the top of the window. The **EF PDF Attachments** window (Figure 18 on page 38) displays the information entered on the **PDF Attachments** window in data entry. A red X means the document has not yet been attached; a green check mark indicates an attached document.



Figure 18: The EF PDF Attachments window

4. Click the row of a document to attach (one with a red X).
5. Click **Browse**.
6. Browse to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

Repeat for all documents with a red X. When all documents have been attached to a completed return, recalculate the return to make sure all EF messages have been cleared. If so, the return is ready to be e-filed.

## Form 3115, Application for Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity's overall accounting method or the accounting treatment of any material item.

*New for 2014:* Form 3115, Application for Change in Accounting Method, is eligible for e-file.

Drake customers can fill out and e-file Forms 3115 and related schedules and attachments for corporation returns. This section provides instructions for completing this form and related schedules and attachments in Drake.

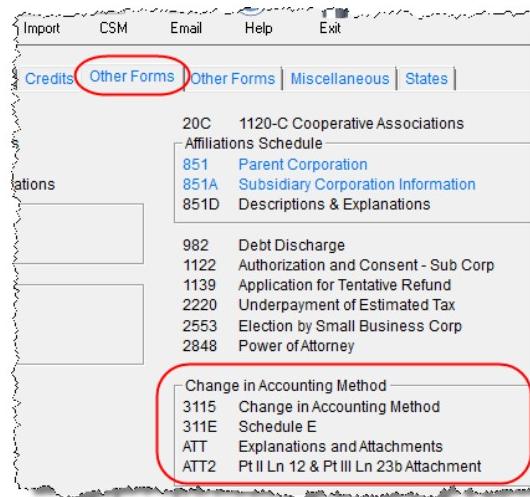
## NOTES

In some cases, Form 3115 must still be paper-filed. See "Parts I and III," starting on page 40, for details.

Applicants filing Form 3115 should refer to Rev Proc. 2015-13 for general automatic change procedures, and to Rev Proc. 2015-14 for a list of automatic changes to which the automatic change procedures in Rev. Proc. 2015-13 apply.

## Accessing Screens for Changing Accounting Method

Several screens may be required to complete Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the first **Other Forms** tab of the **Data Entry Menu** (Figure 19 on page 39).



**Figure 19:** Screens for Form 3115, Application for Change in Accounting Method

The screens accessible from the **Change in Accounting Method** section include:

- Screen **3115 (Change in Accounting Method)** — Used to access fields for Form 3115, including Schedules A through D
- Screen **311E (Schedule E)** — Used to request a change in depreciation or amortization methods
- Screen **ATT (Explanations and Attachments)** — Used to create and view certain attachments to be generated by the software
- Screen **ATT2 (Pt II Ln 12 & Pt III Ln 23b Attachment)** — Used to complete certain parts of Form 3115 that require specific attachments

### Multi-form Codes

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 20 on page 40) that allows you to link a screen or attachment to a particular Form 3115.

If submitting more than one Form 3115, assign a multi-form code to each new application you create in Drake. The first should be 1, the second 2, and so on. When using other screens, such as the **311E** or **ATT** screens, you can use those numbers to indicate which instance of Form 3115 the **311E** or **ATT** screen should be associated with.

### NOTE

If only one Form 3115 is being submitted, you do not need to enter anything in the **Multi-form code** box.

## Form 3115 Screens

When you open the **3115** screen from the **Data Entry Menu**, the program displays the first of five **3115** screens. These five screens are:

- **Parts I, III** (Form 3115, Parts I and III)
- **Parts II, IV** (Form 3115, Parts II and IV)
- **A, B, C** (Form 3115, Schedules A, B, and C)

- **D - I, II** (Form 3115, Schedule D, Parts I and II)
- **D - III** (Form 3115, Schedule D, Part III)

As shown in Figure 20, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.

**Figure 20:** Tab links on **3115** screen

The next few sections of this document provide instructions for completing the various screens for Form 3115 (including Schedules A through D).

## Parts I and III

Use the **Parts I, III** screen to complete the following sections of Form 3115:

- General Information
- Part I, Information For Automatic Change Request
- Part III, Information For Advance Consent Request

## NOTE

Information should be entered in either the **Part I** section or the **Part III** section, but not both.

### General Information

Complete all applicable fields in the **General Information** section. Note that the fields for business activity and tax-year change are override fields (Figure 21). Complete these fields only if you want to override the equivalent information entered on screen **I** or screen **K**.

**Figure 21:** Override fields in the **General Information** sections of the **Parts I, III** screen

On the **Type of accounting method change being requested** line, select **Depreciation or amortization**, or **Financial products and/or financial activities**. If request-

ing another method, describe it in the **Other** text box. (The text box is limited to 20 characters.)

## NOTE

For advance consent requests, state in the **Other** text box the type of method change being requested and a short description of the change (for example, LIFO to FIFO.)

For automatic change requests, these informational requirements are satisfied by properly completing Part I, lines 1a and 1b of Form 3115. (See "Part I," following.)

- Part I** From the drop list on line 1a, choose a **Designated accounting method change number**. If the method is not listed, enter the method on line 1b, in the **Other** text box.

## IMPORTANT

The IRS issued Rev. Proc. 2014-16 to explain how taxpayers can elect to automatically change their accounting methods in order to comply with provisions of the final capitalization regulations. Rev. Proc. 2014-54 further explains how taxpayers can elect to automatically change their accounting methods for the disposition of property in order to conform with the regulations relating to the disposition of capital assets.

Other resources include Drake's Knowledge Base article 13402. (For information on using the Drake Knowledge Base, see Chapter 10 of *Drake Software User's Manual: Tax Year 2014*.)

If any of the scope limitations of section 4.02 of Rev Proc. 2008-52 apply, mark the **Yes** check box on line 2.

## IMPORTANT

By answering **Yes** on line 2, you are stating that the Appendix of Rev. Proc. 2002-9 or the procedures in other published guidelines specifically state that the scope limitations are applicable to the required accounting method change.

If you answer **Yes** on line 2, you must complete all the lines in **Part II, Information for All Requests**. (Click the **Parts II,IV** link at the top of the screen to access Part II.)

See Form 3115 instructions for more information.

After answering 1a, 1b, and 2 in **Part I - Information for Automatic Change Request**, click the blue **Parts II, IV** tab at the top of the screen.

- Part II** In **Part II – Information for All Requests**, answer question 3 (see Figure 22 on page 42). If the answer is **Yes**:

- Ordinarily, the IRS will not consent to a request for a change in method of accounting for the applicant's final tax year. If the applicant ceases to engage in the trade or business to which the desired change in accounting method relates or terminates its existence in the year of change, the applicant is ordinarily not eligible to make the change under automatic change request procedures unless the applicable section of the Appendix of Rev. Proc. 2011-14 or other applicable pub-

lished guidance states that section 4.02(5) of Rev. Proc. 2011-14 does not apply to the requested change in method of accounting. If the change is requested under the advance consent procedures, the IRS National Office will consider the reasons for the change in the applicant's final year (see Part III, line 21) in determining whether to approve the requested change.

- See IRS Form 3115 instructions for details.

**Figure 22:** Automatic Change Request information

## NOTE

Not all applicants are eligible to use the automatic change request procedures.

### Part III

If this section of the **Parts I, III** screen is filled out, Form 3115 cannot be e-filed with the return. It must instead be paper-filed *before* submitting the return. A user fee (a check or money order payable to the IRS) must be included with the paper-filed form.

## NOTES

See Appendix A of Rev. Proc. 2012-1 for more information. For more on applicants who must apply for advance consent, see the IRS Form 3115 instructions.

Taxpayers filing under an automatic change request procedure do not pay a user fee.

If the applicant qualifies for a *reduced* user fee, enter a check mark on line **23b** and go to screen **ATT2** to complete the attachment information for Part III, line 23b (located in the bottom half of the screen). Include the necessary information or certification required by Rev. Proc. 2013-1 (or its successor).

Specific statements must also be attached to the return if the applicant answers **Yes** for line **18** ("Is change request allowed under automatic change?") or **No** for line **22** ("All members of consolidated group use proposed method?"). Press F1 in a specific field for more information on attachment requirements. The method for attaching statements in Drake is covered in "Binary Attachments" on page 36.

### Multiple Accounting Method Changes

If requesting multiple automatic accounting method change requests on one Form 3115, go to screen **3115** and in the **Part 1-Information for Automatic Change Request** section, make a selection from the drop list on line 1a, then use the drop lists below line 1a (see Figure 23 on page 43) to select account method changes being requested.

Enter information in either Part I or Part III:

Part I - Information for Automatic Change Request

1a Designated accounting method change number.... 200 1b Other..

Use the boxes below to select multiple automatic accounting method change requests on one Form 3115:  
186 194 195 196

2 Do any of the scope limitations of section 4.02 of Rev Proc. 2008-52 apply?..... 2 Yes No

**Figure 23:** Making multiple automatic accounting method change requests

On page 1 of Form 3115, the “Other” check box under “the type of accounting method change being requested” will be marked and a note indicating that multiple automatic change requests (“MULTI AUTO CHNG RQST”) have been made (#1 in Figure 24), and the designated change numbers of the requests appear in the “Description” field of Part 1 (#2 in Figure 24).

Check the box to indicate the type of applicant.

Check the appropriate box to indicate the type of accounting method change being requested. (see instructions)

1  
2

MULTI AUTO CHNG RQST

Caution. To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes all information requested on this Form 3115 (including its instructions), as well as any other information that is not specifically requested.  
The taxpayer must attach all applicable supplemental statements requested throughout this form.

Part I | Information For Automatic Change Request

1 Enter the applicable designated automatic accounting method change number for the requested automatic change. Enter only one designated automatic accounting method change number, except as provided by guidance published by the IRS. If the requested change has no designated automatic accounting method change number, check "Other," and provide both a description of the change and citation of the IRS guidance providing the automatic change. See instructions.  
► (a) Change No. \_\_\_\_\_ (b) Other  Description ► 200 186 194 195 196

2 Do any of the scope limitations described in section 4.02 of Rev Proc. 2008-52 cause automatic consent to be unavailable for the applicant's requested change? If "Yes," attach an explanation.....

Note. Complete Part II below and Part IV, and also Schedules A through E of this form (if applicable).

**Figure 24:** Accounting change requests noted on Form 3115

## Parts II and IV

In addition to the **Multi-form code** text box, the **Parts II, IV** screen consists of the **Part II** and **Part IV** sections, used to complete the following sections of Form 3115:

- Part II, Information For All Requests
- Part IV, Section 481(a) Adjustment

Applicants must complete both sections of this screen. For more information on each line (including instructions for any required attachments), press F1 in a specific field.

### Part II, Line 12

Note that there is no field on the **Parts II, IV** screen for Part II, line 12. There is, instead, a link to screen **ATT2**. Fields for line 12, which should be completed if the applicant is changing *only* the accounting method for a particular item or items, are located in the top half of **ATT2** screen. Use these fields to enter information on:

- The items being changed
- The applicant's present and proposed methods for the items being changed
- The applicant's present overall method of accounting (cash, accrual, or hybrid)

Note that the bottom half of the **ATT2** screen is for completing Part III, line 23b. Only the top half (for Part II, line 12) must be completed for Part II, line 12.

**Schedules A,  
B, and C**

Use the **A, B, C** screen to complete the following sections of Form 3115:

- Schedule A, Change in Overall Method of Accounting (screen covers Part 1, Change in Overall Method)
- Schedule B, Change to the Deferral Method for Advance Payments
- Schedule C, Changes Within the LIFO Inventory Method (screen covers both Part I, General LIFO Information, and Part II, Change in Pooling Inventories)

**NOTE**

Schedule A, Part II (Change to the Cash Method for Advance Consent Request) requires attachments and is not addressed on the **A, B, C** screen.

**Schedule A**

This section is required for all applicants filing to change their overall method of accounting. It requires the entry of amounts as they were at the close of the tax year preceding the year of the requested change.

**NOTE**

Leave blank any lines that aren't required for the entity's application. Exclude amounts not attributable to the change in method of accounting—for example, amounts that correct a math or posting error, or that correct errors in calculating tax liability.

The IRS requires a worksheet for lines 1a, 1c, 1d, 1e, and 1f of Schedule A. When you enter an amount on any of these lines in Drake, a CTRL+W worksheet is automatically opened, allowing you to begin entering the descriptions and amounts of multiple items for the worksheet. When you close a CTRL+W worksheet, the program returns to the original screen and displays the total in the field. The field is shaded (default is red) to indicate that a CTRL+W worksheet has been used.

**NOTE**

If nothing is entered in a Schedule A field, the program automatically displays the word "NONE" in the field on the generated form.

**Schedule B**

This section has just two lines, both referring to the request for deferral for advance payments:

- **Line 1** — Request change to the deferral method for advance payments (from section 5.02 of Rev. Proc. 2004-34)
- **Line 2** — Request change to the deferral method for advance payments (from section 1.451-5(b)(1)(ii))

See IRS Form 3115 instructions for more information on making these requests.

**Schedule C**

This section has two parts:

- **Part I** (General LIFO Information) — This section is made up of attachment links. If any of the conditions on lines 1–6 match the entity's situation, click the corresponding attachment link to access the ATT screen, where you can complete the required statement. (Select the corresponding line code from the **Schedule** drop list on the ATT screen.)
- **Part II** (Change in Pooling Inventories) — Enter the descriptions of the contents and the base years of the present and proposed pools. If any of the conditions on

lines 2–4 match the entity's situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement.

### Schedule D, Parts I and II

Use the **D - I, II** screen to complete the following parts of Form 3115, Schedule D, Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets:

- Part I, Change in Reporting Income From Long-Term Contracts
- Part II, Change in Valuing Inventories Including Cost Allocation Changes

### NOTE

If an entity is currently using a LIFO inventory method or submethod and is changing to another LIFO inventory method or submethod, Part II of Schedule D is not applicable. Use Schedule C, Changes Within the LIFO Inventory Method, instead.

### Schedule D, Part I

A long-term contract refers to any contract for the manufacture, building, installation, or construction of property that is not completed in the tax year in which it is entered into. Answer the questions in **Part I** that apply to the entity's situation.

### Schedule D, Part II

This section concerns changes in the identification and valuation methods of inventories. Note that some lines require attachments. To access the **ATT** screen and complete a required statement, click the desired attachment link.

The items on this part of the screen match the items on the actual Form 3115, Schedule D. For information on completing individual lines, see the Form 3115 instructions.

### NOTE

If the entity is unable to furnish a copy of Form 970 (line **5a**), the attachment must include the following statement:

"I certify that to the best of my knowledge and belief (name of applicant) properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended (insert date(s)) and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3."

### Schedule D, Part III

Use the **D - III** screen to complete Part III (Method of Cost Allocation) of Form 3115, Schedule D. Part III is required for any entity submitting either Part I or Part II. Screen **D - III** consists of the following sections:

- Section A, Allocation and Capitalization Methods
- Section B, Direct and Indirect Costs Required to be Allocated
- Section C, Other Costs Not Required to be Allocated

### Section A

Click the **D3-1 Attachment** link (see Figure 25 on page 46) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.



Figure 25: Link to ATT screen for attaching statements

## Sections B and C

Sections B and C consist of a series of drop lists under a **Present** column and a **Proposed** column. “Present” refers to the current accounting method, while “proposed” refers to the requested change in accounting methods. You should address only the items necessary; do not make a selection for any item for which an answer is not required for the entity’s situation.

For each item in sections **B** and **C**, you can:

- Select X** — If you select **X**, the corresponding box on Form 3115 will be marked with an **X**. (See Figure 26.)
- Select B** — If you select **B**, the corresponding box on Form 3115 will be left blank and an attachment will be required explaining why the line was left blank. (EF messages will outline which statements are missing.)
- Select nothing** — If you select neither of the above options, “N/A” will appear in the corresponding box on Form 3115. No attachment is necessary for a box marked “N/A.”

Personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark “N/A” in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

		Present method	Proposed method
1	Direct material . . . . .	X	N/A
2	Direct labor . . . . .	X	N/A
3	Indirect labor . . . . .	X	N/A
4	Officers' compensation (not including selling activities) . . . . .		N/A
5	Pension and other related costs . . . . .	N/A	N/A
6	Employee benefits . . . . .	N/A	N/A
7	Indirect materials and supplies . . . . .	N/A	N/A
8	Purchasing costs . . . . .	N/A	N/A
9	Handling, processing, assembly, and repackaging costs . . . . .	N/A	N/A

Figure 26: X was selected for column 1, lines 1-3; B was selected for column 1, line 4; nothing has yet been selected for any other line.

To attach a statement for section **B** or **C**, click the **D3-2 Attachment** link at the top of Section B (Figure 27 on page 47). A single statement may contain all necessary explanations for sections **B** and **C**.

The screenshot shows a software interface for tax form preparation. At the top, there are tabs: 'Parts I, III' (highlighted), 'Parts II, IV', 'A, B, C', 'D - I, II', and 'D - III'. Below the tabs, the title 'Form 3115 - Schedule D, Part III - Method of Cost Allocation' is displayed. A section titled 'Section A - Allocation and Capitalization Methods' contains a link 'D3-1 attachment' which is described as 'Allocation and capitalization methods detail.' Another section titled 'Section B - Direct and Indirect Costs Required To Be Allocated' includes a link 'D3-2 attachment' which is described as 'Explanation for boxes that are not checked. X=Check, B=Blank, No Selection=N/A'. This link is circled in red. To the right of the sections, there are columns for 'Present' and 'Proposed' with dropdown menus for each item listed.

**Figure 27:** If any box is marked “B,” click the **D3-2 Attachment** link to open the ATT screen and complete the fields for an attached statement.

## Importing Trial Balance Information

Drake’s trial balance import feature allows data to be imported into an 1120 return from a trial balance worksheet. The trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Reduces data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

### NOTE

A flow chart of the trial balance importing process is available as an appendix at the end of this manual.

## Preparing to Use Trial Balance Import

The trial balance import function can be used only on returns that were created in Drake 2008 or later. If you haven’t already, create a client file in Drake or update an existing client file from the prior year. Like several other functions of the tax software, this feature requires Microsoft Excel (version 2000 or later).

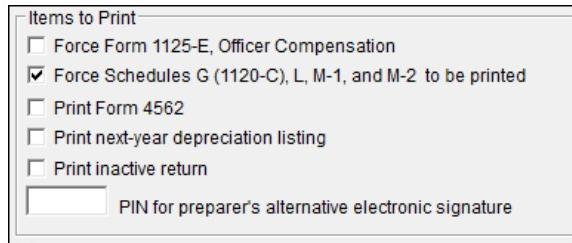
In addition, take these actions to ensure the trial balance import works properly:

- **Enable Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro security is set to “medium.” To do so, go to **Tools > Options** in Excel and select the **Security** tab. Click **Macro Security** and select **Medium**, then click **OK**.

### NOTE

In Excel 2007 and 2010, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. (In Excel 2013, click the **File** tab then select **Options** from the menu on the left.) Next, select **Trust Center** from the list at left, then click the **Trust Center Settings** button. Select **Macro Settings** from the list on the left, then choose **Disable all macros with notification**. Click **OK** and then **OK**.

- **Disable Autobalance** — When autobalance is disabled in Drake, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. To disable autobalance, go to the **PRNT** screen and select **Turn off autobalance**.
- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you must override the default in order to have the amounts shown on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the applicable check box (Figure 28).



**Figure 28:** Check box for forcing Schedule L

- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail (CTRL+W) worksheets that are *not* required. For example, the IRS does not require a detail worksheet for the **Gross receipts or sales** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not be imported correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 29.



**Figure 29:** Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 50 for more information on using detail worksheets in the trial balance.

## Preparing Financial Data for Import

To prepare the financial data for importing into the return, the data must be entered into Drake’s specially designed trial balance template. Once this information is entered and saved, it can be imported into the return.

### Opening a Template

The first step in preparing financial data for importing is to open a trial balance template for the return and enter the financial data.

To open a trial balance template for a return:



1. Open the return to the **Data Entry Menu**.
2. Click **Import > Trial Balance Import** from the toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Create New** or **Open Existing**. If opening an existing file, click **Open** after selecting the correct file.
4. If a **Security Warning** box appears, click **Enable Macros**.

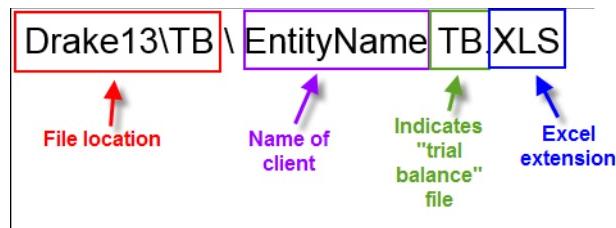
## NOTE

In Excel 2007 and 2010, you may see a **Security Warning** message with an **Options** button. Click **Options** to open the **Security Options** dialog box, then select **Enable this content**. Click **OK**. (In Excel 2013, click **Enable Content**.)

The trial balance template is displayed in Microsoft Excel.

### Naming Convention

Whenever a new template is opened, the tax software assigns it a default file location and name. Trial balance templates are saved in the TB folder of your Drake14 software. The file name consists of the client name as entered in Drake, plus “TB” for “trial balance,” plus the “.xls” extension assigned to all Excel files, as shown in Figure 30.



**Figure 30:** Example of trial balance template file name

To change the name of a file in Excel, select **File > Save As** and assign the new name.

## NOTE

If saving a trial balance to a different location, make a note of where you are storing it. The program automatically looks in the default directory.

### Template Structure

The trial balance template consists of three title rows and six columns. The **Entity Name** and **Year End** title rows can be edited; double-click a row to change the title. Columns are described in Table 4.

**Table 4:** Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake to which the debit or credit amount is imported
Form, Page, Sch, and/or line	Location of the amount on the printed return

**Table 4:** Trial Balance Template Columns

Column	Description
Other Information	Additional details for preparers; see “Details for Preparers” on page 53.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 31; see also Figure 34 on page 52).

Wages (Detail Below)		
Officer compensation	\$0	
Salaries and wages	\$0	
Waste removal	\$0	
Net Income (Loss) = Schedule M-1, line 1	\$301,056	
Totals	\$971,304	\$971,301
	3	OUT OF BALANCE?
		\$3

**Figure 31:** Schedule M-1 amount (1); totals (2); and indication of balance (3)

Following are instructions and guidelines for using the trial balance template to assemble financial data for importing into data entry.

## Entering Financial Data

When a new trial balance file is opened for a return, all debit and credit amounts are zero (\$0). All data must be entered manually into the template.

### NOTE

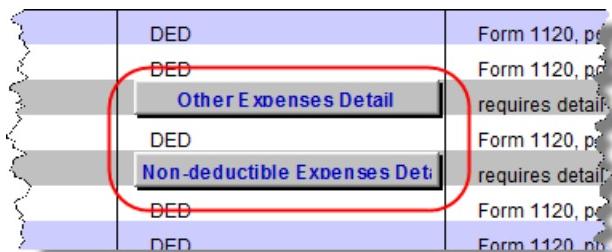
Some data cannot be imported from the trial balance worksheet and must be entered directly into the data entry fields within the program. For more on these categories of data, see “Special Conditions” on page 53.

#### Direct Entry

Most cells in the trial balance worksheet are view-only. In a new template, editable debit and credit cells are indicated by a dollar amount (\$0).

#### Detail Worksheets

Some cells require more detail than can be entered on a single line. These cells are indicated by buttons (Figure 32 on page 51). (Buttons do not work if macros are disabled; see “Opening a Template” on page 48.)



**Figure 32:** Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 33 shows an example of the “Other Income” worksheet.

Statement Required - Other Income Form 1120, page 1, line 11		
Line Description	Amount	Import to:
E7 1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 10
E8 2 Interest income on receivables	\$0	INC, line 10
E9 4 Recoveries of bad debts deducted in earlier years	\$0	INC, line 10
E10 5 Section 481 adjustments	\$0	INC, line 10
E11 6 State tax refund (cash basis)	\$0	INC, line 10
E12 7 Taxable income from insurance proceeds	\$0	INC, line 10
8 Other	\$0	INC, line 10 Other Income Detail
Total other income	\$0	

**Figure 33:** Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **Corp TB** tab (labeled “1” in Figure 33), or the **Click to Return** button above the worksheet tabs (labeled “2” in Figure 33). Note that a detail tab (the “Other Income Detail” button labeled “3” in Figure 33) might include one or more detail worksheets.

## NOTE

Do not create detail worksheets in data entry if the trial balance worksheet does not provide an equivalent detail worksheet. Otherwise, the trial balance will not be imported correctly.

### Totals

Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 34).

Wages (Detail Below)			
Officer compensation		\$0	
Salaries and wages		\$0	
Waste removal		\$0	
Net Income (Loss) = Schedule M-1, line 1			
		\$301,056	
Totals		<u><u>\$971,304</u></u>	<u><u>\$971,301</u></u>
			OUT OF BALANCE?
			\$3

**Figure 34:** Out-of-balance amount is highlighted if columns are out of balance.

In addition to credit and debit totals, the main trial balance worksheet shows the net income (loss) to be calculated for line 1 of Schedule M-1 after all entries and adjustments are made in the software (see Figure 28 on page 48).

## NOTE

The data cannot be imported if the worksheet is out of balance.

## Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. To re-name a file when saving, select **File > Save As**. For more information on file names in the trial balance program, see “Naming Convention” on page 49.

## Importing Data into a Return

## NOTE

Not all trial balance data can be imported directly into a return. For information on program limitations, see “Special Conditions” on page 53.

Once a trial balance worksheet has been set up for a client in Drake, the trial balance information can be imported into the program and calculated into the return.

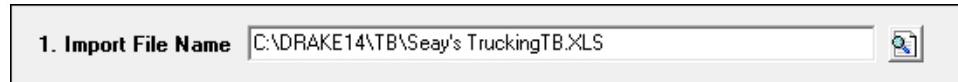
## NOTE

If you are already in the Trial Balance Import tool for the selected return, go to the **Trial Balance Import** window in Drake and start at Step 3 of the following procedure.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened. Click **Next**.
3. Enter or select the trial balance file to be imported. Use the **Browse** feature if necessary. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in “TB” for trial balance, as shown in the example in Figure 35 on page 53. (See “Naming Convention” on page 49.)



**Figure 35:** Selected file to import

4. Select the **Trial Balance Additional Import Options**. (See “Additional Import Options” following this procedure.)
5. Click **Next** and wait for the import to be completed.
6. Click **Finish**.

The program returns to the **Data Entry Menu** for the open return. Note that all selected data from the trial balance worksheet has been imported into the return. This can be seen both in the data entry screens and on the generated return.

### Additional Import Options

The program can import the following additional information when importing the trial balance data: (Select the items to import or click **Select All**.)

Buildings & other depreciable assets	Accumulated depreciation
Goodwill & other intangible assets	Land
Accumulated amortization	Cost of goods sold (COGS) depreciation

## Special Conditions

Some trial balance items cannot be entered into the trial balance worksheet and must be typed directly into Drake data entry. Other items should be entered into the worksheet for balance purposes but are not carried to data entry; these must be entered separately and the calculated results compared to the trial balance worksheet.

### Details for Preparers

Most trial balance items go directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 36 go to Schedule L, line 1, column d in the program and are shown on page 5, line 1, column d of the 1120 return.

Debit	Credit	Import to (screen, line):	Form, Page, Sch and/or line
\$54,321		L, line 1, col d	Form 1120, Sch L, line 1, col d
\$0		L, line 2a, col c	Form 1120, Sch L, line 2a, col c
	\$555	L, line 2b, col c	Form 1120, Sch L, line 2b, col c
\$0		A, line 1	for purchases import purposes only

**Figure 36:** Indication of where an amount will go in Drake and on the return

## Other Info Column

The “Other Information” column in the trial balance worksheet indicates special conditions and additional information regarding certain rows. Table 5 describes the most common notes in this column.

**Table 5:** “Other Information” Column Notes

Note	Description
not included in totals	The amount is required for importing purposes only but is not included in the totals shown on the trial balance.
does not import	Information cannot be imported and must be entered on the appropriate screen in Drake. Screen is specified in “Form, Page, Sch...” column to the left of “Other Information.”
optional	Amount is optional; not required for import, but could require direct entry in the software.
enter deficit as negative number	Some deficits must be entered as negative numbers.
import includes the calculated change in inventory	Used for “total purchases;” when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Schedule A calculation.
[Form or Schedule] may be required	Non-financial information (such as names of officers for a Schedule E) must be completed in Drake, in addition to the financial data entered in the worksheet.

All “does not import” notes are accompanied by further instructions in the column to the left of the “Other Information” column, as shown in Figure 37.

## SCH2 Detail

Typically, a balance sheet subsidiary schedule (**SCH2** detail screen for Schedule L) is required for an item marked “does not import” on the trial balance (Figure 37).

Seay's Trucking Trial Balance 1/12/2014					
Account Title	Debit	Credit	Import to (screen, line):	Form, Page, Sch and/or line	Other Information
Ending inventory	\$0		A, line 7	1125-A, line 7	
U.S. government securities	\$0		L, line 4, col d	Form 1120, Sch L, line 4, col d	
Tax-exempt securities	\$0		L, line 5, col d	Form 1120, Sch L, line 5, col d	
Other current assets	\$6,789		Other Current Assets Detail	SCH2 detail required in Drake	does not import
Loans to shareholders	\$0		L, line 7, col d	Form 1120, Sch L, line 7, col d	
Mortgage and real estate loans	\$0		L, line 8, col d	Form 1120, Sch L, line 8, col d	
Other investments	\$0		Other Investments Detail	SCH2 detail required in Drake	does not import
Buildings and other depreciable assets	\$0		L, line 10a, col c	Form 1120, Sch L, line 10a, col c	optional

**Figure 37:** SCH2 screen required for “does not import” items

To complete an **SCH2** detail screen in data entry:

1. Open the **SCH2** screen for the return.
2. Select the line number from the **Line Number** drop list.

3. Enter the applicable item descriptions and beginning- and end-of-year totals.

**NOTE**

Alternately, open screen L and click the **SCH2 Screen** link for the line your wish to enter.

To enter details for additional lines of the Schedule L, press PAGE DOWN and repeat steps 2 and 3. Data is saved automatically upon entry.

When the return is produced, the Schedule L of the return reflects both the amounts imported from the trial balance worksheet and the totals of the amounts entered on the **SCH2** screen.

**Depreciation**

On an 1120 return, total depreciation consists of COGS depreciation, which is reported on Form 1125-A, Cost of Goods Sold, and any remaining depreciation, which is reported on page 1 of the return. For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A on the return. Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry.

**NOTE**

Entering the remainder of the depreciation on the trial balance worksheet helps ensure that the balance sheet balances and provides a way to check that the amount on line 1 of Schedule M-1 is correct. Compare the calculated line 1 at the bottom of the trial balance to the equivalent line on Schedule M-1 of the calculated return. If the depreciation amounts match but the line 1 amounts differ, an M-1 adjustment could be required.



## **Appendix A: Trial Balance Import**

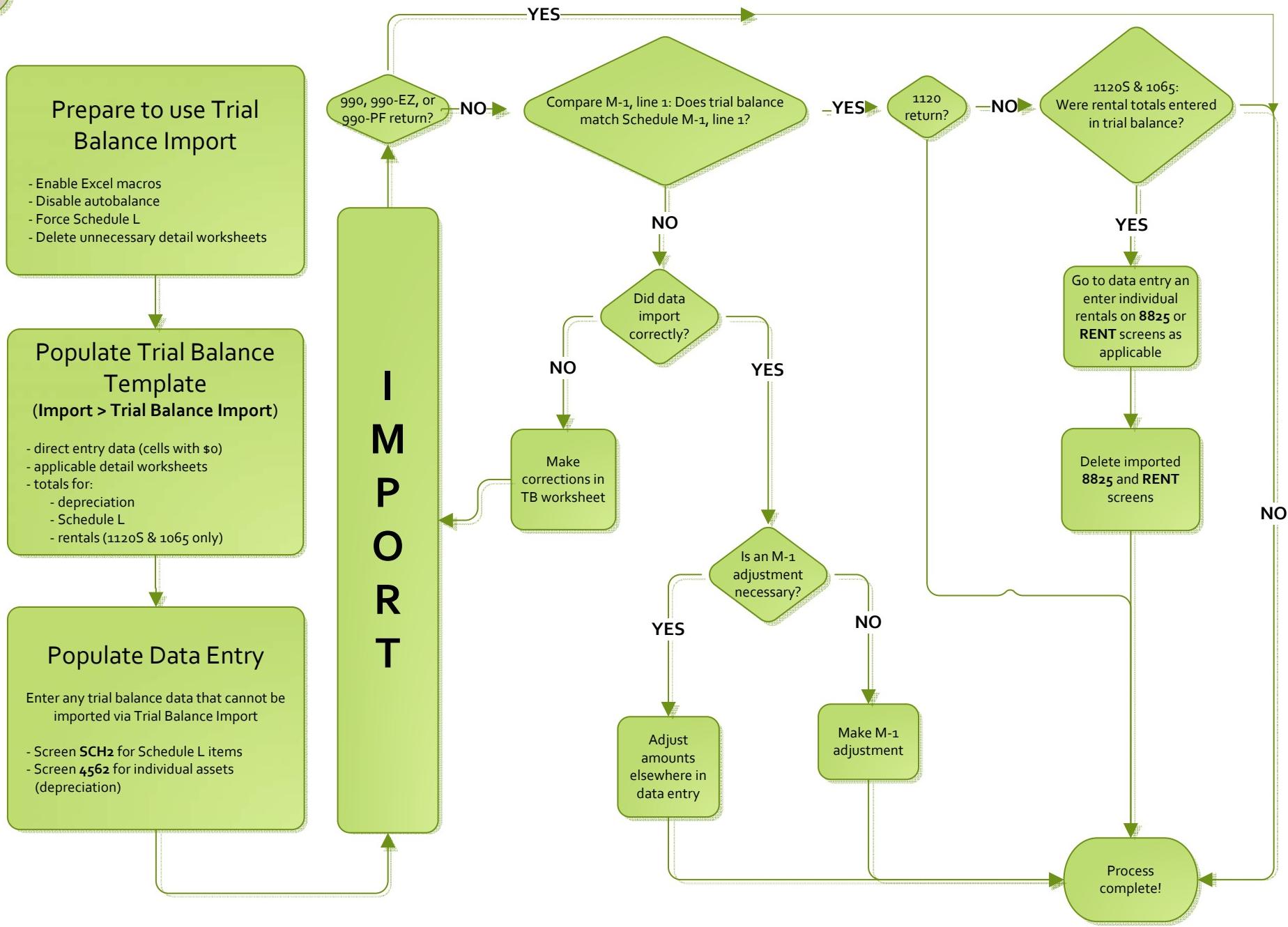
The trial balance import allows data to be imported into a corporate tax return from a trial balance worksheet.

Drake's specially designed trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Eliminates data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

See next page for a flow chart describing the use of the trial balance import.

# Trial Balance Import: General Process



# Index

## A

accounting method  
 changing 38  
 multiple changes 42

address  
 change of 6  
 e-mail 21  
 entering on Form 1120 5

adjustments and credits 29  
 advertising expenses 12

affiliated groups 18  
 alternative minimum tax (AMT) 28

amended returns 17

amortization 13, 23

APPLD FOR 3, 10

apportionment  
 plan status 29

attachments  
 binary 36–38  
 PDF, *see* PDF files  
 to Form 3115 38, 45

auto-balance 25, 33

## B

bad debts 9, 11  
 bankruptcy 34  
 book-to-tax difference (Schedule M-1) 25  
 brother-sister group 28

## C

calendar years 6  
 capital gains and losses 8  
 carryover of NOLs 13, 29  
 cash (accounting method) 44  
 Change in Accounting Method 38–47  
 multiple changes 42  
 change of name or address 6  
 Changes on-the-fly 32  
 charitable contributions 11, 29  
 codes  
 error/reject 34  
 miscellaneous (screen 1) 23  
 multi-form 39  
 state 21  
 combined group 28  
 compensation of officers 9

consolidated returns 8  
 contact information (for state returns) 21  
 contributions, charitable 11, 29  
 controlled groups 14, 28  
 converting to 1120 5  
 cost of goods sold, *see* Schedule A (Cost of Goods Sold)  
 coversheets 33  
 credit for tax on fuels 9  
 credits and adjustments 29  
 Ctrl+W (detail) worksheets 8, 13, 44, 48

## D

data entry  
 trial balance import 50  
 debts, bad 11  
 deductions and income 6–13  
 depletion 12  
 depreciation  
 and auto-balance errors 25  
 expense 12  
 for cost of goods sold (Schedule A) 7  
 on short-year returns 6  
 trial balance (business returns only) 55  
 detail (Ctrl+W) worksheets 8, 13, 44, 48  
 direct debit of balance due 15–16  
 Domestic Production Activities 13  
 domestic production activities deduction 13

## E

e-filing  
 new features in Drake 34  
 PDF documents 36–38  
 Elections  
 Safe Harbor 32  
 electronic  
 funds withdrawal (direct debit) 15  
 signatures (PIN) 17  
 entertainment and meals 13  
 envelope coversheets 33  
 error codes 34  
 estimated tax worksheet 33  
 estimates 14, 33  
 extensions 16, 33

## F

filing instructions 33

**G**

- final returns
  - indicating in the program 6
  - updating 4
- fiscal year returns 6
- foreign ownership 20
- FOREIGNUS 3, 10
- Form 1120-C (U.S. Income Tax Return for Cooperative Associations) 5
- Form 1120-H (U.S. Income Tax Return for Homeowners Associations) 5
- Form 2220 (Underpayment of Estimated Tax By Corporations) 14, 33
- Form 3115 (Application for Change in Accounting Method) 38–47
- Form 4466 (Corporation Application for Quick Refund of Overpayment of Estimated Tax) 14, 33
- Form 4797 (Sales of Business Property) 9
- Form 5884 (Work Opportunity Credit) 29
- Form 6252 (Installment Sale Income) 8
- Form 6478 (Alcohol and Cellulosic Biofuel Fuels Credit) 9, 29
- Form 6765 (Credit for Increasing Research Activities) 29
- Form 7004 (Application for Automatic Extension of Time to File) 16, 33
- Form 8050 (Direct Deposit of Corporate Tax Refund) 14
- Form 8820 (Orphan Drug Credit) 29
- Form 8844 (Empowerment Zone and Renewal Community Credit) 29
- Form 8845 (Indian Employment Credit) 29
- Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) 11, 29
- Form 8864 (Biodiesel and Renewable Diesel Fuels Credit) 9, 29
- Form 8873 (Extraterritorial Income Exclusion) 13
- Form 8881 (Credit for Small Employer Pension Plan Start-up Costs) 29
- Form 8903 (Domestic Production Activities Deduction) 13
- Form 8912 (Credit to Holders of Tax Credit Bonds) 29
- Form 8932 (Credit for Employer Differential Wage Payments) 29
- Form 8941 (Credit for Small Employer Health Insurance Premiums) 29
- Form 8941 (Credit for Small Employer Health-Insurance Premiums) 13

**H**

- header information 5

**I**

- importing trial balance 47–55
- inactive returns 35
- income and deductions 6–13
- instructions for filing 33
- insurance proceeds, income from 9
- interest
  - expense 11
  - income 8, 9
- inventory 7

**L**

- life insurance companies 28
- limitations
  - meals and entertainment 13
  - on NOL deductions 30

**M**

- M-2 out of balance, troubleshooting 27
- maintenance costs 10
- meals and entertainment 13
- Multi-State Apportionment 21

**N**

- net operating losses (NOL) 13, 29
- new features in Drake 1
- next-year depreciation listing 33

**O**

- officer compensation 9
- ordinary gains and losses 9
- Other Deductions 13
- other income (loss) 9
- out-of-balance M-2, troubleshooting 27
- ownership
  - foreign 20
  - of stock 18–20
  - percentages 10

**P**

- parent-subsidiary group 18, 28
- PDF documents
  - e-filing 36–38
- Pension and Profit-Sharing 13
- percentage, stock and ownership 10
- PIN (electronic) signatures 17
- printing
  - statements for Schedule L 24
  - suppressing/forcing 32
- prior-year returns, updating 4

**R**

receipts 7  
 references to forms and worksheets 33  
 refunds  
   direct deposit of 14  
   state tax 9  
 reject codes 34  
 rent paid on business property 11  
 rental & royalty income 8  
 repair costs 10  
 resident state 23  
 returns  
   consolidated 8  
   converting from another type 5  
   fiscal and calendar year 6  
   updating 4

**S**

Safe Harbor Elections 32  
 salaries 10  
 SCH2 screen (for Schedule L) 23  
 Schedule A (Cost of Goods Sold) 7–8, 25  
 Schedule B (Additional Information for M-3 Filers) 27  
 Schedule C (Dividends & Special Deductions) 8  
 Schedule D, Form 3115 45  
 Schedule E (Compensation of Officers) 32  
 Schedule G (Information on Certain Persons Owning the Corporation's Voting Stock) 32  
 Schedule G (Schedule G (Information on Certain Persons Owning the Corporation's Voting Stock)) 19  
 Schedule K 18  
 Schedule K, line 13 20  
 Schedule K, line 3 18  
 Schedule K, line 4 19  
 Schedule K, line 5 19  
 Schedule K, line 7 20  
 Schedule K-1 20  
 Schedule L (Balance Sheet per Books) 23–25, 32  
 Schedule M-1 (Reconciliation of Books with Return) 25, 32  
 Schedule M-2 (Unappropriated Returned Earnings) 27, 32  
 Schedule M-3 (Reconciliation of Books with Return) 26  
 Schedule O (Consent Plan & Apportionment Schedule for a Controlled Group) 28  
 section  
   263A costs 7  
   481 9  
 short-year return 6  
 signatures, electronic (PIN) 17  
 signing the return 17  
 state  
   codes 21  
   tax refunds 9

stock ownership 18–20

**T**

tax  
   alternative minimum (AMT) 28  
   and payments 13  
   -exempt interest 8  
   on fuels (credit for) 9  
   -to-book difference 25  
   years (fiscal vs calendar) 6  
 taxes and licenses 11  
 trial balance import 8, 23, 24, 47–55  
 troubleshooting the M-2 27

**U**

underpayment of estimated tax 14  
 updating a prior-year return 4

**V**

vouchers 14

**W**

wages 10

This page intentionally left blank.